Give and let give

Building a culture of philanthropy in the financial services industry

Dr Rob John, Rhodri Davies and Louisa Mitchell

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Foreword

By Damon Buffini

Chairman of Permira

Though Permira has been investing in businesses for over 20 years, our involvement with social enterprises is relatively new and dates back to setting up the Breakthrough initiative with CAN (Community Action Network) in 2005. We formed that partnership because we wanted to give something back to society by applying the skills and resources we employ in our day jobs.

We didn't anticipate how much the firm would gain from the process. We didn't know a lot about social enterprise when we met Adele Blakeborough and her team, but what we found at CAN was a collection of innovative entrepreneurs who were committed to the future of their businesses, not unlike the chief executives of our portfolio companies. In fact, we found that the motivation that drives the management of our companies is exactly the same as that which drives our social enterprises – building strong, successful, sustainable businesses.

This report clearly shows that there is no one-size-fits-all model for a successful partnership between the City and the third sector, but what is required is a genuine commitment from firms to offer opportunities to individuals to extend their 'giving' activity beyond the chequebook, giving time, expertise and support as well. It is an insightful analysis of how the City and can work with the third sector to deliver positive social impact. We look forward to seeing the results of this powerful alliance in the coming years.

Foreword

By Lord Joffe of Liddington CBE

Founder Director, then Deputy Chairman of Allied Dunbar Assurance Plc and Chair of the Giving Campaign

There is a widespread illusion that the British give generously to charity, but sadly statistics tell a different story - a 25 per cent fall since 1992 in charitable giving as a percentage of GDP, during a period when personal incomes have risen in real terms on average by more than 25 per cent; personal wealth has more than doubled; the Government has introduced attractive tax benefits to stimulate giving; the charitable sector is more professional in fundraising and the very wealthy have prospered as never before. Indeed it emerges that the poor who give to charity, give on average three times as much as a proportion of their income as the better off.

It follows that if the national level of giving is to increase significantly, the very wealthy must set an example by substantially increasing the level of their giving. Much of Britain's wealth today is created by financial services firms, concentrated in the City of London. This report gives inspiring examples of financial service leaders who are not only personally generous, but are helping bring about a change of culture in their companies which encourages all employees to see giving as normal practice. It is gratifying that this year's *Sunday Times Giving Index* includes several philanthropists who created their wealth in financial services, including Chris Hohn, Michael Hintze and Stanley Fink whose organisations are profiled in this report.

One starting point in encouraging the well off to give more is to establish benchmarks. I suggest an initial benchmark for our society as a whole of an average of 1.5 per cent of income or wealth; those earning more than £100,000 a year starting at 2 per cent going upwards depending on the wealth and income of the individual concerned. I would add that while giving money or shares is important I also place considerable value on the time, skills and networks that such people can contribute. I believe that over a period of the next 10 years it should be possible to double the level of voluntary giving in real terms. Those who are fortunate enough to enjoy the rewards of a career in financial services are well placed to contribute to meeting this target and making Britain world renowned for generous philanthropy.

1

Executive summary

Building a Culture of Philanthropy in the Financial Services Industry

Financial services professionals have the wealth and skills to make them leaders in the development of a national culture of philanthropy. Our focus on the City may seem narrow, but cultural change at the national level will not take place without leadership. Some of the leaders of the industrial revolution became our much lauded Victorian philanthropists. Our new wealth creators in the financial services industry (FSI)[1] can act as heralds in our society today, who honour the "social contract" in which they use philanthropy to play their role in the society that made the creation of their wealth possible.

Philanthropy is another form of finance – with the added complexity of social values. The skills of today's financiers and entrepreneurs are vital to the development of a philanthropic capital market. There are a growing number of ventures in which the wealth and skills that have made London the world's financial centre are being put to use in imaginative ways to create and distribute philanthropic wealth. Many of them are profiled in this report. Properly harnessed, the impetus created by this currently disparate group of initiatives could drive the development of a philanthropic capital market as vibrant and diverse as the financial market they have sprung from. The FSI therefore has a key role to play in signalling to wider society the need for a more generous and creative culture of philanthropy.

Although we in Britain are willing to put our hands in our pockets when asked, few of us think about giving in a structured way – only 18.6 per cent of adults give in a regular, planned way to charity.[2] A 2007 survey for the Government's Office of the Third Sector (OTS) found that 81 per cent of respondents had given to charity in the last four weeks,[3] and nearly three fifths of people give at least once a month,[4] but the most common ways of giving are to put money in a collection tin or to buy raffle tickets.[5] A shift in attitudes is required to build our charitable culture into a fully-fledged philanthropic one – and that must be led by the wealthy.

It is often said that we need to create the same culture of giving here as exists in America. This is misleading. We need to create the same levels of giving – currently 1.67 per cent of GDP in the US compared to 0.7 per cent in the UK.[6] But when it comes to the culture, we need to encourage in the UK attitudes and behaviours that take the best and the relevant aspects of the US culture but recognise the differences between the two countries. Roughly a third of all giving in America is to religious organisations, compared to only 16 per cent in the UK.[7] The US does not have a welfare state, reflected in the third of US giving that goes to education, healthcare and social services.[8] Our culture needs to recognise that we have a welfare state, that we have a different tax system to the US and that we already have attractive incentives that could be effectively harnessed rather than replaced with considerable inconvenience by something new.

Attempting to effect a cultural shift is a daunting prospect. There is no silver bullet

1. A comprehensive list of sub-sectors in the financial services industry might include: Banking – private, investment, commercial, retail, credit card issuers; Asset management – pension funds, hedge funds, private equity, venture capital, other fund managers; Broking– stocks, commodities, money; Insurance – general, life, reinsurance; Market-making/trading – cash, futures, derivatives; Advisors/deal makers – corporate finance boutiques; Investment consultants; Financial trade body representatives; Lawyers; Accountants; Consumer credit companies in the form of pawnbrokers, doorstep lenders; Clearing, settlement and payment systems; Regulators; Central banks; Ratings Agencies; Information technology specialists; Financial public relations

2. *UK Giving 2005/06*, Charities Aid Foundation/National Council of Voluntary Organisations, 2006. Planned and organised giving includes direct debits/standing orders, covenants, payroll giving and membership fees

3. *Helping Out: A National Survey of Volunteering and Charitable Giving*, National Centre for Social Research and the Institute for Volunteering Research on behalf of the Office of the Third

4. *UK Giving 2005/06*, Charities Aid Foundation/National Council of Voluntary Organisations, 2006.

5. *Helping Out: A National Survey of Volunteering and Charitable Giving*, National Centre for Social Research and the Institute for Volunteering Research on behalf of the Office of the Third Sector, 2007

6. *International Comparisons of Charitable Giving*, CAF, 2006

7. Ibid

8. *Giving USA 2007*, the Center on Philanthropy at Indiana University, 2007

and it will not happen over night. Multiple changes in attitudes and infrastructure need to take place. More City financiers and entrepreneurs need to be motivated to embrace philanthropy as a way of life that progresses with their careers, and we need to make it easy for them to do so. Our suggestions for reform may seem minor given the scale of the task, but a cultural shift requires step-by-step change. It also requires role models to take up the challenge and speak out about their achievements. This report offers both of these things, practical suggestions for change and inspiring examples of the enlightened City professionals who have already taken up the challenge.

Research Aim

We set out to assess current attitudes to philanthropy among existing and potential high net worth individuals in the financial services industry.[9] In particular we assessed what motivates them and what barriers stand in their way. The research findings provide case studies to act as motivational tools and inform recommendations on how to build a culture of philanthropy that inspires FSI individuals to stretch their means and their minds for philanthropy. We want City professionals and other business leaders to read this report and feel inspired to get on the philanthropy ladder, to maximise their resources for a long philanthropic journey, much like a career, but with no retirement date, and to aspire to be leaders in the development of a British philanthropic capital market. We want Government and policy formers to read this report and resolve to support those individuals by using the system to its optimum, tweaking and refocusing where necessary, to support the development of this culture. Companies have a large role to play in directing a cultural change among employees. A true corporate culture is at least the sum of the parts of the individuals.

9. High net worth individuals for this study are broadly defined as individuals with post-tax income in excess of £150,000 per annum and more than £500,000 of assets not including the primary residence

Research Methodology and Scope

Our methodology was largely qualitative, the core of which was 55 face-to-face, in-depth interviews with individuals from the financial services (predominantly in London), philanthropy and policy sectors. In the FSI, our interviews focused on private equity professionals, investment bankers, hedge fund and asset managers, but we also interviewed people in the legal and accounting professions. Although our interviews have focused on the high margin sub-sectors of the FSI, this report is also relevant for professionals who have the potential to become high net worth individuals in most business sectors; many of the findings apply to business sectors other than financial services. We also interviewed founders of philanthropic organisations who were previously FSI professionals and we interviewed financial advisers. On specific matters we interviewed professionals in philanthropic organisations, policy and legal experts and we also sent a brief set of questions to a group of senior UK employees at Citi. We carried out an extensive literature research and multi-country analysis (including some in-depth interviews) on tax regimes and infrastructure development for philanthropy and social investment.

Our analysis has focused on the supply of philanthropic capital and not on the demand from charities and social enterprises. We recognise that the demand side has a distinct role to play in generating increased philanthropic capital from the supply side. There has been a growing focus on the professionalism of charities and social enterprises in their fundraising from all types of donors, corporate donors. Many are developing sophisticated ways of communicating their social impact in a highly competitive environment. Charities and social enterprises have a critical role to play in unlocking donations of money and skills from FSI professionals, through the way they approach and com-

municate with this community of significant donors. How they do this is beyond the scope of this report.

City Wealth

In the 21st century the City has become the "engine room of the UK economy".[10] Its official share of GDP in 2006 was 9.4 per cent, up from 5.3 per cent in 2001, which contrasts markedly with the decline in the share of GDP of the manufacturing sector, down to 13.2 per cent in 2006 from 21.1 per cent in 1996.[11] It has become the UK's most significant creator of wealth, but concerns persist about its isolation from the rest of society and the economy. The extraordinary wealth creation is seen as benefiting the few and more and more people believe the wealth gap is too large – 84 per cent in a YouGov poll in September 2007.[12] Although it is important not to discourage the wealthy financiers who are indispensable to the dynamism of the British economy, and whose productivity levels are double the UK average,[13] the traditional social contract holds that recipients of great wealth have an obligation to pursue social as well as material benefits with their riches. Sir Ronald Cohen has said in the past that many City people "do not today realise early enough the need to put something back if the system is to operate smoothly".[14]

Due to the much publicised credit crunch, the bonus pool in the City in 2007 is expected to be lower this year than last. The projected figure is £7.4 billion, which is 16 per cent down on the 2006 pool, but virtually flat on the previous year and notably almost 400 per cent up from a decade ago in 1997.[15] Anatole Kaletsky wrote in *The Times* in November 2007: "Don't be fooled by the tantrums on Wall Street…Markets always go up and down."[16] Wealth creation remains significant in the City and philanthropy should not be merely an afterthought in a good year. Giving levels will naturally be affected by levels of income and bonuses, but the culture needs to remain constant. As this report illustrates, there are increasingly creative ways to deploy social and financial capital for philanthropy that need to be supported by a solid infrastructure so that it is always possible to give effectively when the time is right.

> "When we say philanthropy, we mean engaging the head and the heart with an organised and planned strategy, rather than only reacting to donation requests in an ad hoc manner"

Career Philanthropy: the Journey

Embedding a culture of philanthropy means making it normal, so that people would be surprised if a colleague were not philanthropically aligned with a charitable organisation or social enterprise, either in a financial or advisory capacity or both. When we say philanthropy, we mean engaging the head and the heart with an organised and planned strategy, rather than only reacting to donation requests in an ad hoc manner. Although different to a professional career, it can be considered in a similar light – an individual is motivated to start on a journey and builds up to a crescendo depending on career development, age and wealth creation. This analogy of philanthropy to a journey resonated with many of our interviewees. Many set off on the journey as ad hoc philanthropists; over time they became more selective about the causes they supported, deepened their understanding and engagement, became more sophisticated in the kinds of finance they chose to use and increasingly keen to measure the long-term social impact of their philanthropy. There are many factors that inform and affect an individual's philanthropic journey: diverse motiva-

10. *Focus on Finance*, Research Bulletin 1, British Bankers Association, 2007

11. MacKenzie D, *Economic Contribution of UK Financial Services 2007*, International Financial Services, London, 2007

12. www.libdems.org.uk/news/british-public-demand-tougher-action-on-the-super-rich-cable.13167.html

13. FSI employment in 2007 accounted for 4 per cent of total UK employment of 27million people. Taking into account the industry's 9.4 per cent share of UK GDP, this shows that the productivity levels in FSI were about double the UK average

14 Interviewed by David Rowan, *Jewish Chronicle*, 22 September 2007

15 Centre for Economics and Business Research. Bonus pool is predominantly bonuses from investment banks

16. www.timesonline.co.uk/tol/comment/columnists/anatole_kaletsky/article2963276.ece

tions for starting out, different destinations, and a variety of vehicles, fellow travellers and signposts. These factors can be broadly categorised into three types: motivation (or the "why" of giving); means (or the "what" of giving); and method (or the "how" of giving). We have used these categories as the framework for this report.

> "Once an individual is motivated to engage the head and the heart as well as the cheque book, he or she is unlikely to stop"

Motivation

The first category is the most vital to developing a culture of philanthropy because once an individual is motivated to engage the head and the heart as well as the cheque book, he or she is unlikely to stop. "If you allow yourself to engage then the philanthropy journey begins and it is virtually unstoppable…once you start it takes a really hard-hearted or brutal human being to stop," said Chris Mathias (18), entrepreneur and philanthropist. Our interviews showed that the spectrum of personal motivations is wide and interrelated. Family environment was important to many of our interviewees. For Stanley Fink, former deputy chairman of Man Group (31), it is a key driver both in terms of his childhood and his influence on his own children. He said of his upbringing: "My parents were always quite involved in giving, they were not particularly well off…but it was always a question of how much they could afford, not whether they would say yes or no"; and of the values he passes on to his children: "I want my children to see the pleasure of giving now, not when I am old." Lord Griffiths of Fforestfach, vice-chairman of Goldman Sachs International (20), reminds us: "Whether a person is of faith or not, the Bible tells us 'God loves a cheerful giver'".

"Giving back" was often cited as a motivator. Jim O'Neill (33), chief economist at Goldman Sachs told us: "I believe it is important for me to give something back, especially given the background that I have come from. It is as simple as that really.". A life changing event and personal connection with a cause frequently started individuals on their journey or inspired them to scale up. Nicola Horlick (25), founder of Bramdean Asset Management, learnt much about the health service while nursing her daughter through a ten-year battle with leukaemia. She told us: "You cannot rely on the State to provide the soft elements; the frills. We have a fantastic health service provided by the State, but you cannot expect it to do everything,". Similarly inspired by a cause, Tom Hughes-Hallet, former investment banker and now CEO of charity Marie Curie Cancer Care (27) told us that family experience had driven him to action. This was coupled with the recognition that: "Financially life had smiled on me, but…in the process it had nearly finished me off."

Many people have not experienced philanthropy as part of their upbringing and have been fortunate enough to avoid personal tragedy. Instead companies can play a critical role to play in providing opportunities and inspiring individuals to action. Harvey McGrath, former chairman of Man Group (31), feels that he and his fellow directors must "lead by example", citing his chairing of fundraising campaigns and work in the East End of London. "I don't mean just writing cheques, but acting", says Harvey. Although the money is critical, the expertise and skills of FSI professionals provide the opportunity for maximising the creation and impact of the money. Companies also have a critical role to play here. They can provide access to appropriate infrastructure to harness and maximise wealth and expertise.

Means

Once an individual is motivated, determining or creating the means to be phil-

anthropic is the next step. Some entrepreneurs and FSI professionals are employing themselves principally for this purpose. Chris Hohn of The Children's Investment Fund (TCI) makes money for The Children's Investment Fund Foundation (CIFF) (40) to be able to, as Jamie Cooper Hohn says, "provide the best returns for children in the developing world". Sir Tom Hunter, entrepreneur and founder of the Hunter Foundation (23) is clear in the case of his new investment company, West Coast Capital, that "the motivation for making more money is that, after the business part is taken care of, it is all going to go to the foundation,". Through their skills, both Chris and Sir Tom ensure that they are maximising the means.

Methods for philanthropy and maximising means available are interrelated. Adoption of different structures and use of different assets can play a key role in maximising means given the attractive tax incentives available for philanthropy. As John Moulton, managing partner of Alchemy Partners, told us: "Whatever else is right or wrong in the UK, the charitable giving structures are as favourable as anywhere else on earth." But greater awareness and ease of access to a more cohesive infrastructure that brings the disparate incentives together would do much to create our desired culture. Vernon Ellis, international chairman at Accenture (58) told us: "If you own stock which you can give away over time it is by far the easiest and most efficient way to give," but only 6 per cent of the senior Citi employees we polled had ever given shares.

Method

Method is the act of philanthropy and is dependent on the means available and the vehicles that exist to deliver resources effectively. The importance of easy access to advice on giving vehicles and their implementation should not be underestimated. Former Goldman Sachs partner Scott Mead said that available advice had made it easy for him to translate his motivation into action: "Eleven years ago, I set up my own foundation…the firm was encouraging and also helped provide the infrastructure - 'here's a good lawyer, here's an information session' etc. In general they were very helpful in that regard and therefore there were no real barriers to moving forward, since both cultural support and infrastructure were there for you." An infrastructure that can address the fact that philanthropists are not one homogenous group and provide varied means and expertise at different stages in their career is critical to the development of a sustained philanthropic culture.

> "The importance of easy access to advice on giving vehicles and their implementation should not be underestimated"

As the journey progresses means and time may increase and methods evolve to adopt different vehicles and ways of using them. Michael Hintze, CEO of alternative asset manager, CQS (66), set up a family foundation as his method because "the foundation allows us more control over the way we disperse our funds and I want to understand where they go". As a financier he wants to use his funds to the maximum: "The beauty of underwriting is that you can re-use the money." Armed with the means and ready to give more time, Sir Peter Lampl established The Sutton Trust (68) as an operational vehicle to tackle the education system saying of his career in private equity: "Frankly I lost the purpose of making more money and I was looking for what to do next," and "now I can do a lot because it is what I do full time,"

What do we mean by philanthropy?

As a word, "philanthropy" is enjoying a renaissance. In America it is commonplace as an acceptable, indeed desirable, description of a person's generosity towards charities, educational establishments, religious organisations, the arts and other good causes. In Britain, however, the word remains subliminally associated with the Victorian era, where wealthy, altruistic individuals and families wrought enormous social change in areas where the State had little impact or appetite – social services, human rights campaigning, education and the environment. A much-quoted survey in 1948, "The Voluntary Sector in the UK", revealed that the British population saw no role for philanthropy with the dawning of the welfare state.[17] But as John Studzinski, senior managing director of private equity group Blackstone, has often pointed out, philanthropy literally means "love of mankind" and is, above all, about human dignity. If we ignore philanthropy, we ignore a crucial part of society.

In recent years there has been renewed understanding of the impact of Victorian philanthropy on modern life. The Institute for Philanthropy's 2006 survey of 1,000 "philanthropy experts" in the UK sought nominations for the greatest achievements of British philanthropy in the pre-1900 and post-1900 eras:[18]

Greatest Achievements of Historic British Philanthropy:

- Provision of social services before the creation of the welfare state
- Campaigning which led to the abolition of the slave trade
- Provision of education and leisure opportunities for all

Greatest Achievements of Modern British Philanthropy

- Famine relief and long-term aid to developing countries
- Health research and pioneering health services
- Campaigning which led to major social change

The survey argues that philanthropy in Britain remains a vital but uncelebrated force for change in modern society. Private wealth, argues the author, enables a level of innovation, risk-taking and speed in human development that cannot be matched by funding from the state or private sector.

Our own study deliberately views philanthropy as covering a wide spectrum of activity. We see it as "providing capital to an organisation for predominantly public benefit". This can be financial capital in the form of cash, shares and other assets or social capital in the form of time, skills and networks. We also recognise that financial capital need not simply be given away, and that a variety of financial instruments (including grants, underwriting, loans, patient capital and equity) can be deployed philanthropically, where there is clear motivation to create tangible value to wider society. Although this definition of philanthropy may seem rather broad, we wanted as elastic a definition as possible in order to reflect the growing number of opportunities in the area.

Using non-grant finance is sometimes referred to as social investment, especially when driven by an ambition to select organisations that have credible plans for growth, that are focused on long-term social outcomes and that are often viewed as entrepreneurial in the way they approach and solve intractable social problems. Social investors may simply wish to preserve their capital or seek a financial return in addition to anticipated social dividends. Moving towards the more commercial end of the philanthropy spectrum we see growth of community development finance institutions, hybrid organisations such as social enterprises, initiatives such as micro-finance and straightforward businesses with ethical, social or environmental goals.[19]

The creative philanthropist can view all these as potential avenues for investing their financial resources.

17 cited by Jeremy Kendall and Martin Knapp (1996)

18 Breeze B, *UK Philanthropy's Greatest Achievements*, Institute for Philanthropy, 2006

19 Our definition of philanthropy does not include socially responsible investment (SRI). See glossary

When we talk about infrastructure, we mean two things. One is the vehicle for the distribution of wealth, such as a charitable account or the next step up, which is a managed or private trust. The other is the model for leveraging social capital (skills) in order to both create and distribute wealth for philanthropy. For example, Absolute Return for Kids (ARK) (42) taps into its peer network and their skills to create philanthropic wealth and Chris Hohn makes use of what he does for his day job to create philanthropic wealth.

Damon Buffini and his colleagues at Permira, the private equity partnership, use the venture philanthropy model to distribute their skills and wealth along with business expertise to social enterprises through their partnership with CAN (82). When explaining how Permira employees came to be involved with CAN, Damon said: "By taking what the firm does – 'enterprise' – and coupling that to an area which would touch the lives of hundreds or thousands of people it would be a very efficient way of giving." Permira has "invested" in social enterprises and leveraged the social capital of individual employees to mentor and advise the people running these enterprises.

Using skills to create philanthropic wealth and to distribute it effectively are critical to the development of the philanthropic capital market and FSI professionals have the expertise to do both. This is what makes the City an exciting hub for the development of such a market – one which could drive a stronger philanthropic culture across Britain.

Summary of Recommendations

There is no silver bullet for cultural change. Our recommendations come as a package aimed at inspiring individuals to action, breaking down the barriers to implementation and recognising that companies have a key role to play in both these things. No two potential philanthropists and no two companies are the same. Potential philanthropists need opportunities for inspiration that touch them as individuals and access to vehicles that they can work to suit their objectives. Companies need to consider the best initiatives for their business and company culture.

Breaking Down Barriers:

1. ***Opt-out "white label"[20] Charitable Account[21]***
   - Charitable account providers should establish opt-out 'white label' charitable account schemes in partnership with companies as part of the employee joining package.
   - Deposits could be made by payroll giving, transfers of Gift Aided cash or tax-efficient share donations.

2. ***Simplification of personal Gift Aid reclaim into charitable account***
   - HM Revenue and Customs should allow individuals to empower charitable account providers to reclaim the higher-rate personal Gift Aid relief on their behalf.

3. ***www.givinginthecity.org.uk***
   - A neutral body should drive the development of a website for highly financially literate, high net worth individuals about philanthropy that is funded by financial services companies. It should be linked to company intranets and benefit from the expertise of selected partners.
   - This website should act as the leading body for the campaign on opt-out white label charitable accounts.

20 A white label product or service is one produced by one company (the producer) that other companies rebrand to make it appear as if it is their product or service

21 The current leading charitable account provider is the Charities Aid Foundation (CAF), which has over 80,000 account holders. CAF is a charity focussed on promoting effective, committed giving. See www.cafonline.org

4. ***Gold standard for philanthropy advice***
   - A relevant professional body should introduce a gold standard initiative for financial advisers that includes comprehensive philanthropy advice in their spectrum of financial advice.

5. ***Targeted awareness campaign on gifting shares***
   - Charitable account providers should front a campaign, targeted at City professionals, explaining the attractive tax incentives available for gifting shares.

6. ***Broader tax incentives for giving***
   - Government should consider introducing tax-efficient lifetime giving vehicles such as charitable remainder trusts and widening the existing tax breaks on gifts of shares and land to include unlisted shares and/or works of arts.

7. ***Individual Social Responsibility (ISR)***
   - Individuals should take responsibility for their own philanthropy and demonstrate leadership in their company and broader communities by considering charity or social enterprise board positions both for wealth creation and for wealth distribution, as well as advising or mentoring.

8. ***Employer support***
   - Company corporate social responsibility (CSR) programmes should make use of existing internal frameworks to build up individual social responsibility and should provide the infrastructure and initiatives to encourage employees to engage with philanthropy at all stages of their career.

9. ***Promotion of leaders***
   - Companies should promote role models internally, providing "giving leaders" with opportunities to talk openly about their philanthropy and "doing leaders" with opportunities to present their latest projects and initiatives.

10. ***Leverage technical resources for innovative philanthropy***
    - FSI individuals should consider applying their technical financial skills to their philanthropy to deliver alternative forms of financing and expertise to the philanthropic and social enterprise sectors.

2

Motivation

We set out to understand the factors that lead successful individuals from the financial services industry to commit time and money to philanthropy and the barriers that stand in their way. Our interviews sensitively probed these questions and several individuals acknowledged that it was the first time they had articulated how their personal histories, life experiences and religious beliefs had formed their philanthropy in practice. We also studied the ways in which a company can influence the charitable actions of its employees. Although much has been written about why high net worth individuals engage in philanthropy – from Paul Schervish on theoretical frameworks to Theresa Lloyd on interview-based perspectives – our intention was to focus specifically on financial services professionals and to unearth significant philanthropists who had not told their stories in full before.

2.1 Sources of Motivation

Our interviews revealed four broad motivational themes, often personal and usually interrelated:

- Family and faith
- Social responsibility
- Life change
- Connection with the cause

Family and Faith

Growing up in a family where giving, no matter on how modest a scale, is the norm, has a huge influence in later life. Stanley Fink, deputy chairman of Man Group (31), the hedge fund, was raised in such a culture: "My parents were always quite involved in giving, they were not particularly well off but…it was always a question of how much they could afford, not whether they would say yes or no". He himself "started doing youth voluntary service" in his early teens, later meeting his wife through it.

The entrepreneur, Sir Tom Hunter, (23) speaks of his father, who "instilled hard work and community" in him, as central to his decision to focus enormous energy on his philanthropy after selling his first company.

As well as family members, childhood surroundings can play a key role in motivating individuals. For Chris Mathias (18) growing up in India clearly informed his later philanthropy. Similarly, David Blood (91) grew up in a country with a wide disparity of wealth: "We lived in Brazil and as an 11 or 12 year old you can be highly influenced by seeing poverty." This was an experience that shaped him professionally: "My orientation, even as a partner at Goldman Sachs, was always to try to understand markets and what that meant to the broader group of people,".

As people recognise how their childhood has influenced their actions in adult life, so they may wish to pass on values about giving and responsibility to the next generation, especially if their own children are to avoid the dangers of inheriting vast wealth. Nicola Horlick (25), the asset manager who now heads her own company, Bramdean Asset Management, says: "I

Chris Mathias co-founded CMG Partners and Arbor Ventures, both private investment management companies focusing on early stage companies, the latter investing in social enterprises. He is on the board of several philanthropic organisations including World Links, a global learning network, Digital Links International, which he co-founded to recycle computers to Africa, and venture philanthropy company Impetus Trust.

Chris was born and brought up in India during the 1970s. He was aware that his family belonged to a small elite in a vast and poor country, where millions struggled to survive. He was just 16 when he left for the huge contrast of a boarding school in Plymouth. The destitution he had seen every day on his way to school was nowhere to be seen in England. **"We had always given," says Chris about his family life in India, "I am sure the motivation for philanthropy was my upbringing."** He remained in England and, after graduating from university, found his calling as an entrepreneur after stints with Arthur Anderson and Bain, the management consultancy firm. In 1991 he founded Conduit Communications, a company that grew meteorically during the technology revolution of the 1990s. After cashing out from Conduit, and five other companies that he had successfully turned around, he found himself rich at the turn of a new millennium. This new wealth gave him opportunity to develop the sense of responsibility imbedded during his youth.

Despite a successful education at INSEAD, he realised that he knew little about the way charitable ventures worked. He knew how businesses worked and how companies could be turned around and grown for profit. But charities were different; so he spent time with the development agencies Oxfam and ActionAid learning the ropes by funding their projects. His success in technology, new understanding of the charity sector and clear motivations from childhood led Chris to set up Digital Links International – a social enterprise which refurbishes ex-corporate PCs for hospitals, NGOs, community projects and schools throughout Africa. His old company, Bain, helped him develop the venture's business plan, which would ensure scalability, environmental responsibility and high social impact. The enterprise is now self-sustaining, a business objective that Chris brings from his commercial roots.

Chris is a restless entrepreneur – "I make money because I'm good at it, I enjoy it and it is fun, so that is why I do it." His keen sense of values means that he will give it away as fast as he makes it. He says: "Money is great to have, but once you can eat and drink, well what else are you going to do? I do not want a plane!"

"Setting up a family foundation through the Charities Aid Foundation was 'dead easy'," says Chris, "and now my three daughters effectively run it," providing them with first-hand experience of responsible philanthropy while sustaining the culture of giving in the next generation. Chris maintains his own Charities Aid Foundation charity account for everyday donations but has set up a limited company, Arbor Ventures, for what he terms social investing, while his investment firm, CMG Partners, manages his fully commercial deals. Although most of his philanthropy is cash based, he likes the ease and tax efficiency of donating shares, usually assigning 10 per cent of a holding upfront.

Chris does not get hung up on whether an idea or venture he is working on belongs neatly as a charity or business. Indeed one of his current big ideas started off as a non-profit venture based in India, migrated to his social investing arm, Arbor Ventures, but has since become part of his commercial investment interests. His desire to create social value through it remains intact, but he also recognises its commercial potential. He is realistic about the difficulties of running and funding social enterprises, saying: "The social investment market is just really hard; there

is not any infrastructure, there is not any ecosystem, you answer to many masters."

As a trustee of venture philanthropy fund Impetus Trust, Chris is committed to the powerful model of money plus skills. **"I never give money simply by giving money," he says, "because the impact of money and time is far greater. I learnt that from Impetus and there's no doubt in my mind."**

It is Chris' philosophy to create value, whether in the business or social fields, and each requires time, effort and inspiration. He feels people who say they just do not have time are kidding themselves. **About his own time management he says: "Over any given period of time I very strictly look back, and if I have not spent half my time non-profit and half my time for-profit, I know I am screwing up."**

think it is wrong to give too much inherited wealth to children. I will not be leaving all my wealth to my children because that will just ruin their lives,". She also recognises that it is not enough just to limit the wealth that is passed down to them. It is as much about transferring values. "It is really important for me to involve my children because I wanted them to understand that there's more to life than shopping on the Kings Road and mobile telephones." Vernon Ellis (58), international chairman of Accenture, echoed this sentiment: "It's not good for children being left large sums of money."

Tom Hughes-Hallett (27), a former banker and now CEO of Marie Curie Cancer Care, felt his children needed to know "that giving money is immensely pleasurable". For the most imaginative, even children's pocket money can be an early exploration of philanthropy. A former investment banker explained: "When I give them pocket money I split it into three baskets – one is spending money, one is savings and one is charity, and I say 'You can choose which charity'. To be honest one third is a lot more than what people normally give but I think it is important that they learn at an early age the idea that you help other people."

Unsurprisingly, being brought up in a religious faith where tithing and social obligations are normative, runs as a thread throughout an individual's life. Alexander Hoare, managing partner of C. Hoare & Co, England's oldest private bank, says: "I am a Christian and I get some of my kicks out of running a bank but I remember I've got a 'higher authority' up there and I see the bank as an opportunity for me to try to do His will through philanthropy."

Lord Griffiths, vice-chairman of Goldman Sachs International (20) says: "For me the main motivation in philanthropy has been my personal Christian faith, heavily influenced by the Old Testament and the traditions of Judaism."

Social Responsibility

Whether prompted by religious faith or secular humanism, people who have amassed significant wealth during a career in financial services, often articulate the voice of their conscience in terms of "giving back". Jim O'Neill, chief global economist at investment bank Goldman Sachs (33) says: "I believe that it is appropriate for me to give something back, especially given the background that I've come from. It is as simple as that really." Pointing at the view from his window, he remarks on "the scale of deprivation and staggering lack of opportunity" experienced by people who are just a few miles away.

Sir Ronald Cohen, the retired chairman of Apax Partners, caused waves during the intense criticism of private equity in 2007 with his views on taxation, domicile and the industry's obsession with making money. He feels that many made rich by the City lack a moral vision and "do not realise early enough the need to put something back if the system is to operate

Lord Griffiths of Fforestfach is vice-chairman of Goldman Sachs International, an acclaimed academic and was a former special adviser to Margaret Thatcher. He is also chairman of the Archbishop of Canterbury's Lambeth Trust and is on the board of reference of the Transformational Business Network (TBN), an association of businessmen and women who use their skills and experience to make an impact in the neediest areas of the world.

Lord Griffiths grew up during the postwar years in Wales "in a religious background with the expectation that people should give a tenth of their income; the only question was should the tenth be before tax or after tax?" It was a community where people lived very modestly: "But," says Griffiths, "they really did give. It was very generous as a community." In the decades before the flourishing of independent charities the main outlet for this generosity was "the church or faith-based organisations."

He is clear about the fact that for him, "the main motivation in philanthropy has been my own personal, Christian faith, heavily influenced by the Old Testament and the traditions of Judaism." And he quotes the Bible passage that says, 'For you know the grace of our Lord Jesus Christ: that though he was rich, yet for your sake he became poor, so that you through his poverty might become rich.'[1] "This is the basis of Paul's argument for giving", Lord Griffiths points out, "and I think that is the authentic nature of giving within the Christian church. It is the example of Christ and the following of Christ."

As a young academic at the London School of Economics during the Sixties, Lord Griffiths was heavily influenced by the businessman and philanthropist Sir John Laing, a deeply religious man who built up his famous family construction business giving it a strong sense of responsibility to workers and community. Immensely successful and wealthy, Sir John Laing died in 1978 having given away most of his money (up to 90 per cent of his income towards the end of his life) and having endowed several trusts. He was a hard act to follow, but Lord Griffiths says that his example encouraged him to maintain the biblical tradition of tithing, or giving away 10 per cent of income.

During his time running the Prime Minister's Policy Unit between 1985 and 1990, Lord Griffiths found Mrs Thatcher deeply committed to a giving culture, providing an environment where initiatives such as Business in the Community and the Percent Club could flourish. After leaving No 10 he became involved with the US furniture manufacturer, Herman Miller Inc, a company founded by D J DePree, a man of strong faith who encouraged and commissioned work from many of the foremost names in the modernist movement. D Pree's influence has left the company with a strong philanthropic culture, and Lord Griffiths currently chairs its philanthropy programme. For him there has been a "common thread of faith" running through his life: "I've seen it in different cuts, so to speak, like in Wales in a mining background, in London in a professional background, in America in a business context, but there has always been that motivation of faith."

Goldman Sachs provided him with a company culture in tune with his own morality of giving: **"When I first came to Goldman Sachs in 1991 it was assumed that everyone who was a partner had a foundation of their own and that they gave. That was just considered to be part of what's expected of any person who has been given so much: that they give so much back."**

He is impressed with the great industrialists such as Cadbury and Lever who provided safe work places, decent housing and green spaces for their workers long before the welfare state. "I was very impressed with Cadbury, and in particular with the development of Bourneville, because Bourneville is giving In its day it was quite advanced: the idea that each family should have a plot of

1 II Corinthians viii, 9

land, a house but also a garden, because they were made in the image of God."

He is optimistic that the attitude that all companies should involve their workforce in philanthropy is growing: "I think, at the corporate level, charity has moved on from wealthy individuals in the company giving to everyone taking a part – a corporation with a 'giving heart'." He feels companies need to give all staff opportunities to contribute what they can: "It may be time, it may be money or it may be the company contributing its core competencies." Times are changing for the better: "To me that is something new. That wasn't around 30 years ago."

Lord Griffiths sees enterprise as "a key part of modern philanthropy", where microfinance or social venture capital in Africa can help solve intractable social problems by giving poor entrepreneurs access to the capital they need to build sustainable small businesses. His new book *Fighting Poverty Through Enterprise – the Case for Social Venture Capital*, co-authored with biotechnology venture capitalist, Kim Tan, argues persuasively for enterprising approaches to eradicating poverty that unlock entrepreneurship rather than leading to dependency.[2]

What prevents greater generosity in the financial services industry? "I suppose the main barrier is materialism," says Lord Griffiths. "By the time you've got a car or two and a yacht and maybe a second home in the south of France or something, you can see that the bills add up. That is the real challenge. It's very interesting that Jesus taught more about money than he did about prayer. When he personalised and deified money in the form of Mammon, that's a very powerful metaphor in the Christian faith; and Mammon can easily take over."

Lord Griffiths believes leadership is the vital first step in creating a culture of giving in any company "however large, however small". "The CEO has to say ultimately these are our values, these are our principles, this is the way we want to live." But it must be done "without creating a really oppressive environment", where people are coerced because people do derive enormous pleasure from giving freely." **"Whether a person is of faith or not, the Bible tells us 'God loves a cheerful giver'."**

smoothly".[3] He fears that a widening gap between rich and poor, especially as they are often thrown together in the same neighbourhoods, will lead to social tension: "People haven't quite understood that the system that enables entrepreneurial societies to thrive leads to social consequences that the market does not take care of. It's great to talk of the economy's growth, but you do have to worry about what's happening at the extremes. The divergence of the rich and the poor creates an unstable situation. And I am interested in avoiding a situation where people get so far left behind that they are desperate, they don't mind overturning the applecart." Private banker Alexander Hoare agreed: "I think that people in London financial services who are gapingly richer than the rest of the country do have a lot of personal responsibility or they will end up like Marie Antoinette with a social revolution on their hands."

The vast wealth created by relatively few people in the City is not uniformly matched by charitable generosity. This view was universally echoed throughout our interviews. Nick Ferguson, a veteran of the private equity industry and a prominent philanthropist, expressed it forcefully: "I could see around me all the money being created, and was upset that more of it wasn't going to charities, and being upset was a great motivator for doing all sorts of things."

It is natural for people to want their giving to "make a difference" and to feel a sense of achievement from their act of generosity. But some go further and see them-

2 Griffiths B and Tan K, *Fighting Poverty Through Enterprise – The Case for Social Venture Capital*, 2007

3 Interview by David Rowan, *Jewish Chronicle*, 22 September 2007

selves as what Theresa Lloyd calls a "catalyst for change", in search of significant and sustainable improvement in the lives of others.[4] Having the confidence that these aspirations can be realised is what Paul Schervish in his paper, The Modern Medici, refers to as "hyperagency".[5] While "great expectations and grand aspiration exist across the financial spectrum", it is the wealthy who can make them happen. Harvey McGrath, former chairman of Man Group (31) reflects: "Sometimes we give for social reasons and sometimes we give for reasons that relate to a direct personal experience, and I do that. But my reflection is …. if you want to move beyond a mode that is broadly reactive, then I think you do need some sort of approach which answers that rather more difficult question: 'How do I know what the consequence of my giving is? And so that has led me to do a number of things differently in terms of the way my giving has been shaped. It has focussed me on certain themes or certain areas rather than others, ultimately driven by the demonstrable effectiveness and impact of these charities."

Life Change

Changes in life circumstances can take place slowly as we get older, or suddenly, perhaps through family illness or change of job. Sir Tom Hunter (23) had spent his whole life building up a successful retail company and when he sold it felt ill prepared for the immediate impact: "I had a big cheque and I was unemployed". Top City jobs are lucrative but can take a toll on health and wellbeing. As Tom Hughes-Hallett (27) says of his investment banking career: "Financially life had smiled on me, but in the process it had nearly finished me off." Ill health or plain boredom can set people off in search of fresh challenges: "I was in private equity for a number of years, made some money and quite frankly got bored with making more money", says Sir Peter Lampl, who went on to set up The Sutton Trust (68).

Financial success and security do not guarantee contentment. The stereotypical mid-life crisis can hit anyone in any industry and may even provide new avenues for philanthropy. In explaining why he set up a personal foundation Jon Moulton, Alchemy Partners managing partner, half joked: "It was my own idea. I began to see that I had a lot of surplus assets and trading the wife in for a younger model or getting a yacht seemed less attractive!"

Stanley Fink of Man Group (31) has spent decades shaping his own and the company's philanthropy but admits: "I really believe my passion to give more has grown as I've got older."

Jim O'Neill of Goldman Sachs (33) thinks philanthropy is something one turns to naturally towards the upper end of a career: "I suppose you get to a stage in life where you start thinking about these things a bit." Responsibilities increase, but so do authority and remuneration and it should be easier to build time for philanthropy into life at this stage. Getting people hooked earlier on in their careers, even in a low key way, is the vital challenge for a strong and vibrant philanthropy sector.

Tarek Ben Halim, a former investment banker now working on Arab social change programmes, is adamant that active pursuit of philanthropy is not something that should be left until those post-retirement twilight years, saying: "I think you need to do these things when you have the energy," and believes that good philanthropy "is not just about giving money, it is also about trying to think of a way of doing it that may have an impact."

Connection with the Cause

Philanthropy is about engagement of head and heart, like most pursuits in life. There may be many internal and external motivations that prompt a philanthropic

4 Lloyd T, *Why Rich People Give*, Association of Charitable Foundations, 2004

5 Schervish P, *The Modern Medici: Patterns, Motivations and Giving Strategies of the Wealthy*, Boston College Social Welfare Research Institute, 2000

Sir Tom Hunter founded private equity firm West Coast Capital which invests predominantly in retail companies. Previously he founded the Sports Division chain of shops which he sold in 1998. He set up the Hunter Foundation the same year.

"At the tender age of 37 I had only one thing in my life – my business – this was my total life, I knew nothing else," says Sir Tom Hunter. **"When I sold it I had a big cheque and I was unemployed. I had to re-educate myself that life wasn't over, hopefully."** So began a journey for Sir Tom, a Scottish billionaire who over 14 years created a sports retail empire from scratch.

His father, the local grocer in a small Ayrshire village, had instilled strong values of hard work and responsibility to the community in his son. Even so, to find himself suddenly very wealthy was not a life change for which Sir Tom was fully prepared. He gave himself space and time to consider how to invest money effectively. The breakthrough was meeting Vartan Gregorian, president of the Carnegie Corporation of New York, the grant-making foundation set up by Andrew Carnegie in 1911. Sir Tom recounts the meeting, "I just went over there and I knocked on his door and I said, 'Look, here's my story and can you help me?' Vartan was instrumental in giving Sir Tom the steer he needed – "So among others, Vartan really began to educate me in philanthropy, he was the kind of mentor who took me under his wing. So we kind of came to two conclusions: one was that **I wanted to continue with wealth creation, but I didn't have the motivator of needing any more money personally, because I didn't, all my material goals were all fulfilled, but the motivation was now to earn the money to put it into the foundation."**

While building up his business Sir Tom had naturally enough got involved with local charities, "I had always done my bit, being in the sports business; bought a set of strips for the local kids football team, or maybe a local hospice would want something and so on" he recalls, "but that was pretty unfulfilling because you wrote the cheque, and thought 'did it make any difference?' And was it a scam? And what were the outcomes for what I did?"

Setting up the Hunter Foundation in 1998 with his wife, Marion, came well before Sir Tom met Vartan; it was a knee jerk reaction to selling the business in a hurry – Sir Tom remembers it as "number 47 on the lawyers to-do list: 'do you own a charitable foundation?'". He admits is was no great vision for philanthropy, just something people did when they suddenly became wealthy, although deep inside he sensed a latent need to act responsibly.

With the example of fellow Scot Andrew Carnegie and advice from Vartan he began to professionalise the working of the Hunter Foundation. Mindful of the heritage of Scottish entrepreneurship, which had been eroded by decades of dependency on state-owned industries, Sir Tom focused on the Scottish educational system as a starting point – "we felt that it wasn't a very grand statement, but we knew we had to start at the beginning to educate kids into a different mindset, from 'someone will take care of you, to you've got to take care of yourself'."

Sir Tom set up West Coast Capital in 2001 as his for-profit investment company "and the motivation for making more money is that, after that business part is taken care of, it's all going to go into the foundation." West Coast Capital is the engine driving Sir Tom's philanthropy, which is becoming increasingly international in scope through support of Band Aid, Live 8, Make Poverty History and collaborations with former President Clinton on a bold attempt to deliver a model for poverty alleviation through the Clinton Hunter Development Initiative.

"My aspiration is to spend half my time on wealth creation and half on philanthropy," says Sir Tom, "but these two worlds are colliding, and it's very healthy for my business and charitable work." He

recalls how a week spent in New York at the Clinton Global Initiative on philanthropy opened up new business contacts: "A lot of people wanted to see me, who I would never get to see in a purely business sense, to talk about philanthropy. I could never have opened those doors from a business point of view; these were big business people who are trying to get into philanthropy. Now I suppose I'm a little further up the curve in philanthropy, but they're further ahead of me in business; it's a win-win situation."

In 2007 Sir Tom put his head above the parapet by announcing publicly: "Our aim is to redouble our efforts in wealth creation through West Coast Capital in order that we can, over time, invest £1 billion in venture philanthropy through our Foundation. Great wealth brings with it great responsibility." His gesture attracted cynics but Sir Tom is adamant it was made for the right reasons: "I was really challenging myself by making it public, whereas if you keep it private you're allowing yourself to fail because nobody ever knew that's what you wanted to do."

He sees his foundation as a risk fund, believing that "governments don't really like to take risks, so what we've said to them is, 'OK, here's something which we have found, for example in education, so let's do a pilot, let's agree the outcomes, let's get independent evaluation, but if we prove it then you adopt it as policy.'" The thinking is similar to Sir Peter Lampl's (68) – to sustain a proven model there must be an exit strategy which involves taking the model to scale, and often only governments have the capacity to do that.

The Scotsman believes that "London is the world's financial capital and it could be the world's philanthropy capital." So what does Sir Tom believe is holding the City back?

"I firmly believe that, in Britain, we're only coming to terms with the idea that wealth creation's OK, never mind investing it for the public good, like in America. In 1995, as entrepreneurs, we asked ourselves – How can we help others? We set up the Entrepreneurial Exchange to encourage those of us who'd had success and wanted to put something back." The Exchange runs small, focused dinners, for example for entrepreneurs wanting to learn about philanthropy. He thinks that the City needs such safe peer groups to encourage philanthropy from within.

"I have a belief that once business people get into it properly then they'll do it for the right reasons, because it's great fun and fulfilling – it's more fulfilling than any business deals I do."

response, including experiments with different giving models or the goal of leveraging resources for maximum impact, but philanthropy, or love of mankind, is fundamentally an emotional activity. Tom Hughes-Hallett (27), a former banker now working full time in the charity sector, told us how he had set up a set up a charitable trust in the memory of his daughter. In caring for her daughter, Georgie, during a ten-year battle against leukaemia, Nicola Horlick (25), the asset manager, learned a lot about the health service and cancer care and has consequently focused much of her own charitable work on children and cancer.

Harvey McGrath, recently departed chairman of Man Group (31) grew up in Belfast and had firsthand experience of the generational consequences of a segregated education system. He has put his weight behind projects to bridge the sectarian divide in the schools of Northern Ireland: "It is a generational change programme, because having grown up in the place it has long been my conviction that you have actually got to change the way in which the next generation views the world in order to make enduring positive progress."

Chris Mathias (18) is convinced that seeing first-class charitable work in action is "the most powerful motivator", adding that

Nicola Horlick is founder and chief executive of Bramdean Asset Management LLP, a London-based fund management company. She has spent more than 20 years in the fund management industry and was previously founder and chief executive of SG Asset Management.

Nicola has always given to charity because she is aware that she "was brought up in a very comfortable way and continued to live comfortably" through her life and feels "very strongly that if you are privileged it is really important to give something back".

She also believes that the non-profit sector is a vital component of any well developed society: **"You can't just rely on the State to provide the soft elements; the frills. We have a fantastic health service provided by the State, but you can't expect it to do everything."**

She experienced first hand the value that can be added by voluntary organisations during her daughter Georgie's ten-year battle with leukaemia. Since Georgie's death in 1998, Nicola has become heavily involved with a number of charities linked to her experiences, including Great Ormond Street Hospital and Leuka 2000 (now Leuka), and has often used her public profile and enviable list of contacts to help to fundraise, including £13m for the Breast Cancer Unit at Bart's Hospital. She personally gave money to build a children's play area dedicated to the memory of her mother-in-law, who died of breast cancer.

Personal experience and connection also led her to donate some money to St Paul's Girls' School, where Georgie had been a pupil, to build a maths room in her memory. And they were also behind her decision to set up two bursaries in Georgie's name at her old Oxford college, Balliol, aimed at providing support for students with young children.

Her own children are another major motivation for Nicola. Like a growing number of people in her position, she is concerned about the potential harm that leaving large amounts of wealth to her offspring could do. But even more than that, she is keen to involve her children in her charitable work, because she "wants them to understand that there's more to life than shopping on the King's Road and mobile telephones".

For three years until last August, she was vice-president of Unicef, giving both her time and business experience to it. She took the opportunity whenever possible to take her children to see the projects in Zambia that she had chosen as her focus. This policy of involvement certainly seems to have had an effect: her daughter, who had been on one of the Zambia trips, asked to go out there after finishing her GCSEs to help to rebuild a school, which Nicola was more than happy to arrange.

She is aware of the potential her philanthropic activities have for inspiring her colleagues, but as the head of a business she does not want to be prescriptive about getting people involved. Instead, she says that she "will let them create their own wealth and decide what they do with it". However, she is aware that "they do see what I'm doing, and therefore I'm sure they will be influenced by that."

Nicola has realised, though, that people from the business world are often more willing to get involved in philanthropy once they realise that the benefits go both ways: "It is really important to give something back, but it is also very good for you to have outside experience from your day job, because in strange ways it can create ideas for that job; if you are meeting new people and having new thoughts about completely different subjects it can lead to lateral thoughts which can be beneficial to your business."

Nicola is aware of the value of demonstrating efficiency: "If you can say to people that this charity only spends 5p in the pound and 95p of what you give goes directly to where it's needed, that makes a big difference."

She has stuck to this philosophy in her own philanthropy: "I don't like just giving blank cheques to people. If I was going to raise money, I insisted on it being targeted and

focused." It is only by doing this that she can reassure herself and others that "the money wasn't being wasted".

Nicola has a general rule of thumb to guide her charitable giving: **"What I tend to do is give away about 25 per cent of my income per annum, plus the occasional big expense."** It is almost impossible, however, to calculate how much her fundraising skills have contributed to the charities she has been involved with.

She considered setting up a private foundation as a vehicle for her giving, but decided that the potential benefits did not outweigh the fact that "it is very expensive in my opinion". She was aware of many existing organisations working in the areas she is interested in, and felt there was no need to duplicate their work.

For instance, through a former contact of hers at Unicef, Bramdean has formed a relationship with ARK. So in this case, Nicola thought: "There is no point in me setting up foundations when there are other people who are doing it perfectly well. I trust those people, so I'm very happy just to give that money to ARK for them to spend on Aids projects in South Africa."

direct experience is "way more than being cool, way more than it being a duty or down to your background or anything". "There is something about offering volunteering opportunities," thinks Tom Hughes-Hallett (27), "because once you volunteer I think you are quite likely to give."

The day that Jim O'Neill (33) and the Goldman Sachs Community TeamWorks spent with Kids Company in the East End of London triggered a critical memory of his upbringing in an underprivileged area of Manchester. Jim and others went on to found the education organisation SHINE, an enterprise he describes as "my passion, that's for sure".

Philanthropy is not an "either/or" pursuit. It works most effectively when a person balances head and heart. The entrepreneurial and financing skill used in the day jobs of our interviewees is a great asset for their philanthropy. But so is the passion, drive, enthusiasm and fun that comes from a personal engagement with a charitable cause, whether it be health, the arts, education, music, the environment or global poverty. To combine both is the art of effective philanthropy.

2.2 Staying Private or Going Public

In British culture, giving is essentially a private affair. Philanthropy is not celebrated publicly, as it is in the US. Theresa Lloyd, in her survey of wealthy donors, found a "widespread feeling of unhappiness about the status and respect given to philanthropy in the UK", brought about by the "complex attitudes of the British to money, class and wealth creation…the absence of role models…and the perceived reluctance to talk about money."[6] This deep-rooted attitude was further compounded, argues Lloyd, by the media's perpetuating of a negative image of philanthropy. In 2006, an article in The Observer even warned readers that "the media risk branding philanthropists not far from paedophiles".[7] The result has been people wanting to "give discreetly", discouraging "an open culture of giving".

Tom Hughes-Hallett (27) feels that this has to change: "I think we've got to beat the culture. We've got to find some way, through role models and through scrupulously placing the newspaper articles, to make people think it is OK to tell the world they have given money, because then the peer pressure will begin to mount up,".

When he started out, in the New York financial industry, Sir Peter Lampl (68) learned that not only were giving habits publicly known, but also even affected career advancement: "I had a slightly British attitude to giving at that time and

6 Lloyd T, *Why Rich People Give*, 2004

7 Hunt T, "How To Stifle Philanthropy", *The Observer*, 16 April 2006

Tom Hughes-Hallett is chief executive of Marie Curie Cancer Care, one of the UK's largest cancer charities. He joined Marie Curie in 2000, following a 25-year career in the City, latterly running Fleming's global securities business.

Since he first had contact with the charity world, Tom's passion and level of involvement has grown ever greater.

While working as a banker, family and friends' experience brought Tom into contact with two charities: Great Ormond Street Hospital (GOSH) and the Michael Palin Centre for Stammering Children. He was so impressed by what he saw of these organisations and the support his family and friends received from them that he became involved at a board level with both.

Following the takeover of Flemings by Chase Manhattan in 2000, Tom was faced with a dilemma: **"I was suddenly confronted by the fact that I probably didn't have to work again, but I was 47 and full of energy."**

A move to a full-time role in the charity sector seemed the ideal solution: "My wife said to me, 'Why don't you make the evening job the day job, because you seem to enjoy it a lot more than the day job?' So I answered an advert and came here. And I've been here for seven years. I love it. It's the best job I've ever had and I don't know why I didn't do it earlier really."

Although he is clearly driven by his passion for the causes he supports, Tom is also pragmatic and admits that his awareness of the tax incentives for charitable donations has added an extra impetus to his giving. "There was no question that I was to some extent tax driven in my motives. Particularly with the money that I was getting in bonuses and then the money I got when Chase took us over, the sheer pleasure of being able to direct it myself rather than giving it all to the Chancellor was a motivating factor."

As well as his full time role with Marie Curie, and his non-executive roles with GOSH and the Michael Palin Centre, Tom has set up a family charitable trust – the Emily Hughes-Hallett Trust, named in memory of his daughter.

Because of the diversity of his charitable activities, Tom gives in a wide range of ways. He gives his time, energies and expertise to Marie Curie through his day job, and to GOSH and the Michael Palin Centre through his board roles with both. In terms of giving money, he mainly uses the Emily Hughes-Hallett Trust.

A large part of the money in the trust came from a donation of the shares he received on the sale of Flemings. In addition, Tom gives shares every year to add more money to the pot, using his own rough formula to calculate how much: **"Each year we look at the performance of my own investments the previous year and if the mark to market is higher than the previous year I will give away that amount of money into the foundation…if the portfolio goes up from x to 1.1x, I give away 0.1x in shares."**

He sees this as an efficient and long term way to keep his philanthropic capital coming: "If you like it is painless when the market keeps going up, because it is not money I've ever had. It is incredibly tax-efficient because then there's no capital gains tax paid and I off-set it against income tax."

And this calculation of how much to give has a crucial result: "It creates fun, because it is fun giving away money. Something we don't talk about enough in this country. It is fun!"

An important aspect of philanthropy for Tom is the potential he sees for showing his peers how and why getting involved with charities can be rewarding: "I talk quite a lot to City people about jumping ship, so I probably see someone every month…I do talk a lot about the Emily Hughes-Hallett Trust to my friends, particularly the ones who've been lucky as well. 'You ought to try this because it's great fun.'"

However, he admits that there can be difficulties when trying to be open about philanthropy. **"I don't think any of my friends have any idea of the magnitude of what I've given away and nor do I have**

any idea of the magnitude of what they have given away. That is a pity, in a way. There must be some clever way of doing it, without us all feeling shy and embarrassed."

Tom thinks it might help if the focus were more on the causes people believed in, rather than the amounts being given. "If I wanted to try through my own experience to put pressure on my friends, rather than saying, 'I've given away…', I could say, 'The Michael Palin Centre is the most important thing in my life and two years ago I helped to keep it afloat, and I regularly give a percentage of my income to it.' I think that is not a bad thing, given the character of the British."

Marie Curie produces an impact report every year, outlining the specific goals set down the previous year and assessing whether these have been met. This is a key aspect of demonstrating to donors where their money is going and what effect it is having.

Tom's experience in the City has made him aware of the importance of these sorts of metrics in the for-profit world, and he thinks that the trend towards greater measurability in the philanthropic sector is on the whole a positive one.

However, he does offer a note of caution. In the development of the "market intelligence" sector for charities we must remember that the two are not the same: "The difference between being a fund manager and someone who's giving their money away is that in the latter case there is the personal emotion."

said 'Why should I give money away?' but it became fairly apparent that if you didn't you would stand out, and that might affect your career prospects quite frankly, so everyone did it." While advancing your prospects for promotion might not be the purest motive for philanthropy, it does at least provide a powerful incentive to start the habit of giving in the early stages of a career – the more so if a company introduces its professionals to a particular cause at the same time. The latter is critical for motivation and financial services professionals need compelling stories about philanthropy in order to be encouraged to give and to give more. The industry needs to see philanthropy work successfully in the lives of those it respects professionally. Stanley Fink, deputy chairman of Man Group (31), believes that people need to know about the "great examples of leadership in the industry".

Being public about philanthropy is a risk; the media usually focus on the numbers rather than the cause or the social impact created. Sir Tom Hunter's (31) very public statement about raising £1 billion for his foundation from the profits of his private equity firm resulted in predictably cynical media comment. For Sir Tom it was aspirational and holds him publicly accountable to achieve the goal (23). More stories need to be heard about doyens of our financial services industry who have made generous, thoughtful and adventurous contributions to philanthropy.

Philanthropy, in some ways has never been more fashionable. Chris Mathias (31) believes that the time has come for philanthropists to change their attitude to publicity: "If you had cool people who would stand up, and have everyone treat them as if they were cool, rather than faintly grimy, then that's the only thing that will change the culture." But publicity remains a huge tension for the majority of philanthropists – even Chris struggles with this area despite his recognition that we need more public role models. When asked to be more public in his role at venture philanthropy firm Impetus Trust he knew that it needed a very public leader to "be passionate about it to create a bandwagon", but he could not bring himself to do it. As he said: "It just so goes against my grain."

2.3 The Company as Catalyst

Although our research has focused on individuals and their personal motivation as philanthropists it became clear that companies can and do have a significant role to play in unlocking the philanthropic potential of individual employees in three ways:

- Setting a culture
- Providing opportunities
- Leveraging resources

Setting a culture

Without question, a company's culture is set and sustained by the board of directors and senior executives. In 1971 Joel Joffe (now Lord Joffe) founded Allied Dunbar Assurance (later part of Zurich Financial Services) and, together with Mark Weinberg, was the driving force in creating a generous culture of philanthropy throughout the company. Lord Joffe, once part of Nelson Mandela's defence team, went on to become a consumer champion, Chairman of Oxfam and a hands-on philanthropist akin to a business angel. One of Sir Mark Weinberg's more recent ventures, St James's Place Wealth Management, continues in the same vein of generous corporate philanthropy. Its employee matching scheme for charitable donations stands at over £800,000 annually and an outstanding 82 per cent of the company's community (including employees, clients and those involved in the St James's Place network of advisers) give each month to its foundation through Gift Aid enabling it to raise over £10 million.

Thirty-five years on, our interviews revealed just how critical it is that a company's leaders drive its vision for philanthropy and themselves "walk the talk". When Nick Finegold founded the agency brokerage, Execution, in 2001 he decided that a fundraising day for charity would be central to the company's strategy (35). Frustrated with a haphazard approach to company giving, Michael Spencer, chief executive of ICAP (45), created the company's first annual charity day in 1993.

Harvey McGrath, formerly of Man Group, feels that he and fellow directors must "lead by example", citing the fundraising campaigns that he chairs and his work in the East End of London. "I don't mean just writing cheques, but acting," says Harvey who, with Stanley Fink and others, has created a culture of giving at the hedge fund (31). It is no surprise that both men are energetic, thoughtful and adventurous philanthropists.

Scott Mead, former partner at US investment bank Goldman Sachs, senses that the "level of facilitation and moral persuasion" for promoting philanthropy at Goldman Sachs is unique among its peers. The firm encouraged him when he set up his own charitable foundation and suggested a good lawyer to use. He feels the culture is very pro-philanthropy: "It is a why not- why wouldn't you do this?" frame of mind, where all employees are expected to give at a level most appropriate for them.

Goldman Sachs has recently taken the further step of providing the framework for partners of the firm to do just that. Goldman Sachs Gives is a donor advised fund (see Section 3) for partners, who can donate a percentage of their salary to it and direct where their money goes, while the fund carries out all of the administration and bears the costs.[8] Not only is this about making it easy for the partners to give, it is about making philanthropy part of the aspiration of becoming a partner, of becoming a Goldman leader and success story.

A number of other banks also have "pooled vehicles", which employees can use for their giving. Merrill Lynch, for instance, has a donor advised fund, although it is aimed at clients of the bank's wealth management division as well as employees. Lehman Brothers uses its own corporate foundation like a donor advised fund, allowing employees to have a large say in the grants process. In 2006, 76 per

8 "Goldman sets up $1bn philanthropy fund", *Financial News*, 21 November 2007

cent of grants from the Lehman Brothers Foundation were based on recommendations by employees.[9]

Nicola Horlick (25) has created a new fund management firm, Bramdean Asset Management, staffed with young professionals working their way up. Although she has a track record in philanthropy she realises that her younger staff are not necessarily where she is yet: "I will let them create their own wealth and decide what they do with it, but they do see what I'm doing, so therefore I'm sure that they'll be influenced by that."

Making sure that he and other leaders at Man Group (31) are on the top of an employee's sponsorship list is an important leadership signal for Stanley Fink: "If one of the employees is doing a sponsored thing, I'll always be the first on the sponsor sheet with a thousand pounds or so to inspire some of my colleagues to give a bit more…"

Providing Opportunities

Last year, 18,000 Goldman Sachs employees participated in more than 1,400 social projects, including working with a range of human service organisations, building homes, mentoring young people and restoring the environment, through its global Community TeamWorks programme. These initiatives are often belittled and it is fair that in some cases it would be more useful to put a business leader into a charity strategy meeting for a day than to have him clean up a beach. But these schemes should not be written off. Jim O'Neill (33) went on to found SHINE after his experience with a TeamWorks project at Kids Company in East London.

There are different approaches to providing volunteering opportunities. The TeamWorks style of day which doubles up as a corporate bonding experience is one such approach which many of the very largest ("bulge bracket") investment banks adopt. Goldman Sachs has Community TeamWorks and Morgan Stanley has its "What a Difference a Day Makes" initiative.[10] Deutsche Bank, Merrill Lynch, UBS, Lehman Brothers, Credit Suisse and others have comparable schemes.

Another approach is to give employees time off for individual volunteering. Stanley Fink of Man Group (31) agrees that this one important way for a company to signal to staff that it values what they do beyond their desks, but he is realistic about how much time can be spared in a pressured commercial environment: "We give them a bit of time off to go and do some volunteering, but only one or two days a year, we can't really go any higher". But these hours can add up. Man Group employees donated 3,642 hours of management time in 2006-07 and Deutsche Bank employees in the UK volunteered 2,650 hours of paid time in 2006.[11] Harvey McGrath, former chairman of Man Group, says the company's current strategy for its corporate philanthropy is "driven by a focus on the engagement of people in the company" and it is reviewing its policy for giving staff days off for volunteering to make it "more flexible and increased".

When Damon Buffini, chairman of private equity firm Permira, led the Breakthrough (82) initiative, he offered all his London-based staff an opportunity to get involved. He was surprised by the take-up: "We had more volunteers than we could accommodate at the time." Two years on, a quarter of Permira's staff have been directly involved with the social enterprises supported through the scheme, from mentoring through to IT advice. Damon believes the Breakthrough project has been successful in giving staff the opportunities they need to set off on their own philanthropy journey, and that working with social entrepreneurs has "really opened our eyes and changed people's attitudes to charity".

A company does not need to have a proprietary philanthropy programme in

9 Lehman Brothers 2006 Global Philanthropy Review

10 Morgan Stanley, *International Charity Report*, 2006

11 Deutsche Bank, *Corporate Social Responsibility* Report, 2006

Man Group Plc is a global provider of alternative investment products and solutions. The company has a long-standing tradition of encouraging philanthropy among its employees and a number of notable individual philanthropists among its senior management.

Man Group sees its philanthropy as being an essential element of what it is to be a "good corporate citizen". It is easy to be cynical about such claims, but in Man's case spending even a bit of time with some of the senior managers shows that they take it very seriously and with good effect.

A crucial feature of Man Group's philanthropic culture is that the people at the top lead by example. Both the recently departed chairman Harvey McGrath and the current deputy chairman Stanley Fink are noted philanthropists in their own right, being heavily involved with organisations such as New Philanthropy Capital and Absolute Return for Kids (ARK). They are key role models for Man's employees.

The group's approach to philanthropy is driven by the desire to encourage the individuals within the company to become engaged with causes that interest them. As Harvey McGrath says: "I can't stress enough how much we are driven by a focus on engaging the people in the company and we, for example, articulate that by giving a much higher weighting to a request [for funding] that comes from someone in the business who is involved in that particular cause than to a cold, third party approach." Stanley Fink says: **"If one of the employees is doing a sponsored thing, I'll always be the first on the sponsor sheet with a thousand pounds or so to inspire some of my colleagues to give a bit more…"**

There is an element of enlightened self interest at work here, as the culture at Man Group is seen as a key selling point when trying to attract the best talent. As Stanley Fink points out, **"If you can show people that your corporate goals are about more than making money for the owners of the business, that you're doing some powerful social good and influencing change, you can actually make people feel good about working for an organisation…I have this view that in the City most of the employees have used money as the only currency, and I think it's just like playing golf with one golf club - you're not getting the best out of it."**

A key aspect of engaging employees with charitable causes is giving them the opportunity to see for themselves the work that charities do. The group adopts an annual charity, based on a staff ballot of a shortlist of causes recommended by employees. This charity is then the focus of giving for the Man Group Charitable Foundation for the year; hence the company's giving is fundamentally dictated by its employees.

For individual employees who wish to become involved with charities, the company also strives to allow them as much time as is practicable. Man Group employees donated 3,642 hours of management time in 2006/07. This has been calculated to equate to a cost of $516,000 based on the value of each employee's time, and represents an increase of 26 per cent on the year before.

The company also matches individual charitable fundraising by its employees up to a maximum of $4,500, in recognition of the potential of such matching schemes. In 2007, nearly $200,000 of matched funding was leveraged from the group. Man Group also has a payroll giving scheme, where employees can elect to make tax-efficient donations to charities of their choice directly from the payroll. In 2007, 200 UK employees took part in payroll giving, and raised $427,850. Matched funding from the company took the total to $600,000.

Man Group also announced in 2006 that it was introducing an innovative formula to determine its level of charitable giving. After this summer's spin off of the brokerage division, the formula states that Man Group will

donate to the trust 2.50 per cent of net performance fee income and 0.25 per cent of net management fee income. There will be no upper limit on donations, but there is a guarantee that they will not be less than 0.5 per cent of group pre-tax profits. This new formula has resulted in a 103 per cent increase in Man's charitable giving, as reported for the year to March 2007.

As a leader in the hedge fund industry, metrics and measurement are very much Man Group's stock in trade, and they are keen to apply the same sort of focus on results to the company's giving. As stated in the 2006 Group Corporate Social Responsibility report: "We select charities and initiatives to which our donations will make a tangible difference."

Each of the trustees of the Man Group Charitable Trust is responsible for recommending and building relationships with charities, which are invited to trustee meetings to make presentations on their progress. This allows the trustees to track the effectiveness of donations and to understand the needs of the charities better, for example in terms of financial support or involvement of Man Group employees.

place for staff to be given opportunities. There are a growing number of intermediary advice and mentoring initiatives such as Pilotlight (35) and Kilfinan Group (45) that can broker the opportunity to put staff skills to good use.

Focusing on the development of individual skills, Goldman Sachs launched the Public Service Program in 2004 which is a global initiative designed to give its high performers the chance to spend up to a year working with a non-profit organisation.[12] The idea is not only to provide the charities with the benefit of financial and management expertise, but also to give employees the chance to develop their leadership skills in a different environment.

Although our interviewees told us time and time again that the key to fulfilling philanthropy is to put time and energy into it as well as money, this is not always realistic at the start of a career when individuals are not in control of their own schedules. But any company can adopt the St James's Place Wealth Management approach of fostering a philanthropic culture at all levels through a matched giving scheme (see page 29).

Leveraging Resources

Nick Finegold's intuition told him that a company's infrastructure could be put to great use for philanthropy. His belief that the "operational gearing was enormous" led to company charity days at Deutsche Bank and more recently his own company, Execution (35). ICAP's Charity Day (45) is based on the same model: an entire day's trading revenue and commission is collected for philanthropic causes through the company's foundation.

These high-profile fundraising days do not suit all companies, especially those who answer to public shareholders; matched giving can be a simpler way to gear up the charitable donations of employees. Peter Lampl (68) experienced the US corporate culture where "the company match-funded payroll giving". For both employee and company "this was not an optional thing" and the "pressure to be generous and have the company match it was tangible". At private bank C. Hoare & Co, managing partner Alexander Hoare is adamant that a culture of company matching drives up philanthropy generally among the staff: "Our foundation double-matches any employee donation through Give As You Earn, which has the effect that fully a third of our staff have got charity accounts at CAF."

"At Man Group", says Stanley Fink,(31) "we match the first £1,000 a year for staff on payroll giving; we really try and give people enormous leverage to

12 www2.goldmansachs.com/our_firm/our_culture/corporate_citizenship/charitable_services_group/public_service_program/public_service_program

Jim O'Neill is a partner and Chief Global Economist at US investment bank Goldman Sachs. He is chairman of trustees for SHINE (Support and Help in Education) and he is on the board of the Goldman Sachs Foundation in Europe.

It is currently fashionable to be cynical about corporate social responsibility and to shun corporate community action days as public relations stunts, but every so often these initiatives reap a winner and Jim O'Neill is a classic example.

"I went on a Goldman Sachs Community TeamWorks day to Kids Company and I was hit by the scale of deprivation and staggering lack of opportunity for the people that are three miles away from my office," he says.

This event on his doorstep in London, coupled with his upbringing – "modest in terms of income" – on the edge of one of Manchester's rougher areas, led him to create SHINE with some colleagues in 1999. SHINE funds organisations working with underachieving 7-16 year-olds from disadvantaged areas in London and Manchester. (Jim grew up in Manchester and made his fortune in London.)

Goldman Sachs fulfilled two key criteria in providing the framework and motivation for Jim's philanthropic activity today: it got him out there and connected him with a cause and it supported his time and effort in setting up SHINE.

Jim's day job is also a key motivator. As an economist he spends a lot of his time analysing global economies and it has cultivated his thinking that "you cannot expect to be the forefront of global change without doing more for those that are disadvantaged by it."

His profession also means that he is results-driven and believes in raising productivity. His passion is delivering this through education. But he is convinced that aspiration is also critical to ultimate success. From these two strong beliefs SHINE was born.

His experience at Kids Company made him realise that if he and his friends took some of their money, managed it as well as they could to create more money, applied their skills, drive and time and directed it towards disadvantaged children to try to create the aspiration and opportunity that had enabled them to get to where they are today, then they had a chance of achieving an incredibly high return.

Their training meant that they were not about to embark on something without the right preparation, they hired three people they knew and respected, two of whom where City women who had taken time out to have children, to research "everything that was going on in education" for six months. It was the business plan approach and it would never have occurred to them to do it any other way.

Jim agrees that he and his co-trustees time and skills are important for SHINE, but he is adamant that "our money is pretty important too". It is the combination and application of all three that put the money up, worked it and applied it in a way that gets results for the cause.

SHINE is the perfect example of how City professionals' money and skills can be leveraged to create the maximum result with the minimum input. Not that running money is easy, but if you do it for your day job, adding another fund to those you already manage falls naturally into your daily routine without contributing another large item to the "to do" list that has to be constantly reprioritised and rescheduled.

Crucially for the long term sustainability of SHINE, Jim and his co-trustees negotiated with the Charity Commission to be allowed to run their endowment as they saw fit. It may have seemed risky to diverge from the standard 60 per cent bonds and 40 per cent equities model, but SHINE's trustees were keen to use the expertise of a colleague who ran the London office of a major hedge fund. They won their battle and,

since it was set up, the endowment has returned on average 7 per cent per annum compared to an average of 1 per cent for the FTSE 100.

SHINE also fundraises externally. Jim says this is one of the most difficult things to do. This is partly because he and his co-trustees shun the limelight and public events, even though they recognise that they need more role models to help to build a culture of philanthropy, and partly because SHINE already has a solid body of trustees, but many wealthy individuals do not want to give if they are not going to be part of that core group. Jim and the trustees also recognise that it can be hard to persuade people to give to an organisation with such a specific focus.

Jim and his co-trustees are tough. They would be the first to admit that. The yearning for results and the inclination to constant measurement and evaluation naturally spills over into SHINE's operations and its funding recipients too. Jim says he does sometimes hear of people saying that they don't want to ask "the SHINE crowd" for money because their expectations are too high. But this is an organisation that is about aspiration, the whole ethos, the whole point is about aiming high.

Jim did not get where he is today without stratospheric aims and without an inordinate amount of hard work. He would be the first to say that he was "lucky" to be a pre-IPO partner at Goldman Sachs, but he could have said enough was enough along time ago.

He candidly says that he nearly did that a few years ago, jaded by the travel and the schedule and the fact that he could not honestly say to himself that he needed any more money. But along with the development of the BRIC concept (the combination of the developing economies of Brazil, Russia, India and China), and many other things, SHINE has helped re-orientate and refocus him, given him fresh purpose. In his own words, when he had those feelings, he was beaten back into submission by the thought **"Jim O'Neill of Goldman Sachs is better for SHINE than Jim O'Neill of South West London."**

get them into philanthropy." The majority of the bulge bracket financial institutions have matching schemes in place. Most firms match on a pound-for-pound basis, but some match at 1.5 or even 2 times employee donations, usually with an upper limit on the total amount. UBS matches employee donations up to $2,500 a year,[13] Merrill Lynch donations between $50 and $1,500 a year,[14] and Deutsche Bank up to £3,000 a year.[15] Goldman Sachs has recently announced that it is raising its matching limit from $10,000 to $20,000 per employee per year. This announcement was made at the same time as Goldman Sachs Gives (see page 29) in order to emphasise the importance of philanthropy throughout the firm and to encourage aspiring partners to engage in it. Some companies such as Morgan Stanley and Lehman Brothers offer direct donation matching in America, but have decided to focus on matching employee fundraising rather than donations in Britain.

2.4 The Business Case

"Doing good is apparently good for you" is the conclusion of a 2006 study of corporate philanthropy in which two leading US business schools demonstrated the link between a company's charitable donations and future revenue growth.[16] Dover Management, the US-based mutual fund that invests in companies with a high level of corporate philanthropy has no doubt from its own research "that companies that dedicate their philanthropy strategically, in keeping with their overarching corporate

13 UBS, Corporate Responsibility Report, 2006

14 http://philanthropy.ml.com/index.asp?id=66319_67034_67416

15 Deutsche Bank, *Corporate Social Responsibility Report*, 2006

16 Lev B, Petrovits C and Suresh R, "Is Doing Good Good for You? Yes, Charitable Contributions Enhance Revenue Growth", Social Science Research Network, July 2006; http://ssrn.com/abstract=920502

Nick Finegold is the founder, chairman and CEO and James Blackburn is the head of strategy at Execution, a small agency broker servicing major investing institutions. James is also chair of the Execution Charitable Trust. The trust is funded by the revenues from one-day of trading through Execution.

Nick was an enlightened 25-year-old at NatWest Markets when his "Jewish guilt" manifested itself in an idea to use the trading business to raise money for philanthropy: **"I would go to charity dinners, which are great fun, but they are a headache to organise, and someone might write a cheque for £1,000 and that would be a great achievement. But then I would come into work the next day, see the money that was changing hands on a daily basis and think, if I could get hold of this business for just one day and use it to raise money…the operational gearing would be enormous."**

He did not pull it off at NatWest Markets, but managed it at Deutsche Bank in the early 1990s. When he founded Execution in 2001 he and his partners integrated it into the company's core strategy, despite the fact the company was very young and not really making much money at that stage.

Operational gearing is a principle that runs through the trust. James works with New Philanthropy Capital (NPC) (74) on the basis that "they could not hire one person to do what NPC does for the trust with all of their resources".

They have been low key about what they have established and achieved – partly because they recognise that it is not just their own money they are granting, but their clients money too, and partly because they wanted to build up a track record before they started to shout about it. "It is like trying to raise money in a fund management business; you are judged on your historic track record and you have to do two or three years of proving your worth," says Nick.

This has clearly been a source of some tension for them. James recounts that recently he has spoken at a few private philanthropy forums and, when he says that they prefer to stay under the radar, people say to him: "You have an obligation to talk about it, it is not your choice, you have an obligation to tell people that this is the way they should behave."

Nick rationalises it by making a big distinction between "promoting oneself versus being asked to speak", the latter being acceptable. But they have taken the feedback on board and Nick says: **"In the same way that I saw the operational gearing in being able to get hold of the workplace, I now see operational gearing in inspiring others to do something similar."**

Nick and James complement each other. Nick is very honest about the fact he "had to have James run it" because if he did it, "the money would be spent within 30 seconds of it coming in". Nick is quick to clarify: "I founded the company and the trust but James does all the hard work and I am kind of the striker that scores too, but he is kind of the midfield engine, without whom the striker would never score a goal."

James has an incredible passion for what the trust achieves and would love to devote much more of his time and attention to it, but the importance of operational gearing is never far away, and he can do more for his charities by leveraging Execution's trading platform. "I have always believed that people are philanthropic, what we have done is provide our clients and employees with an excellent mechanism for tapping into that," he said.

The model of operational leverage extends into the organisations they fund too. They found more and more of their charities were coming to them and saying, "I have got a vision but I have got no idea how to get from A to Z," so they found they were repeatedly hiring consultants to sit down with them. "Now it makes sense to fund the Cranfield Trust who have lots of experts to do that role, but need money to support them," said James. The Cranfield Trust offers free consultancy to voluntary organisations, using a register of volunteers from the commercial sector.

Charity day is a low-key

affair and both Nick and James are adamant that they like it that way. Nick says: "We have just kept our heads down, and there is something strangely fulfilling about doing something simply because it is in your heart to do so."

It may be in their hearts, but they go about it with the same attention and rigour that they do their trading. Through New Philanthropy Capital their giving is meticulously planned. "I think we have used our clients' funds incredibly well. We provided the mechanism and we have used the funds responsibly," says Nick.

Nick does retain the right to go with a hunch too, but those cheques come from his personal account. He was one of the first backers behind Jeremy Gilley's Peace One Day initiative which is now observed by 100 million people in 200 countries and marked by a concert at the Albert Hall with stars such as Annie Lennox and Jude Law. He got his partners' agreement for Execution to put a roof over Jeremy's head, provided phones and computers and it now houses a team of six. But the cheques he wrote out himself, realising he could not ask others to support such an unproven, nascent idea.

It helps that Execution is a private company because Nick's board is made up of people such as him who support his strategy and he does not have to answer to shareholders.

On charity trading day, Execution passes on 100 per cent of the gross proceeds of the day. That means they pass on all the commission as well as the cost of settlement and clearing and other aspects of executing the trades. So they are raising clients' money and also donating their own slice of the pie as well.

In 2007 Execution raised £1.55 million for charity. This year, as in previous years, they made a large donation to ARK and they are keen to support ARK's work. The rest is managed with the help of New Philanthropy Capital, with the exception of a small amount that is kept for employee gifts or for clients who would like part of their total donation given to a charity of the client's choice. Even these ad hoc donations are endorsed by NPC so that Execution can be sure not to waste donations on inappropriate organisations.

James clearly manages the trust portfolio carefully with NPC and takes great pride in constantly assessing the impact of the funds. "Clients may not even ask us what we have done with their money over five years, they are not particularly demanding, but they are entitled to ask and if I couldn't go back within five minutes and explain then I would have nothing to be proud of," says James.

He likes to be able to experience his projects firsthand. "One of the reasons we have chosen community projects in the UK is so that we can go and see them and understand exactly what impact we are having and I take employees and clients with me to these places," says James. They also have a workshop once a year when they invite all their beneficiaries to London, to share and solve each other's problems, and also to meet employees and clients.

In their modest way, they say much about how carefully they assess the impact of their money by acknowledging their mistakes. "What I am very proud of is that we try things and we accept that they might not work sometimes, and we monitor them, and maybe sometimes you have to pull something or someone," says Nick.

This is the attitude they have adopted throughout the Execution Trust's five-year journey, as Nick said: **"We have got a record now, having quietly gone about what we have done with dignity and having selected some inspired charities to support. Like our fundraising mechanism and our Trust operations with NPC, our giving strategy was also operationally geared. To give one example, we took care of two people in a way which meant we took 25 kids off an estate, which enhanced the lives of about two thousand people. We have five years of that type of result, and we have Peace One Day being observed by 100 million people in 200 countries, so now I feel we have got something to shout about."**

and product strategies, are able to invest shareholder value and create greater shareholder wealth."

Stanley Fink of Man Group (31) is clear that the corporate philanthropy strategy he brought to the board of Man Group was a strong business case: "When you are appealing in the graduate marketplace for the brightest youngest people…if you can show that your corporate goals are about more than making money for the people themselves, the owners of the business, that you're doing some powerful social good and possible change, you can actually make people feel good about working for an organisation."

Nicola Horlick of Bramdean Asset Management (25) also believes that people should be aware of the potential value that getting involved with philanthropy can have on their working life. She argues: "Although it's important to give something back, it is also very good for you to have outside experience other than what you're doing full time because in strange ways it can create new ideas for your day job; if you're meeting new people and having new thoughts about a completely different subject it can lead to lateral thoughts which can be beneficial to your business." Alexander Hoare of C. Hoare & Co agrees, pointing to his own experience that "the outside appointments, which do take up time, make you a better banker. I can give better advice to my 10,000 customers because I've seen things from the other side."

The top performing hedge fund, the Children's Investment Fund (TCI) (40), has a unique philanthropic model that Jamie Cooper-Hohn feels attracts top talent because it takes its social responsibility so seriously. She says: "We really do have people who anyone in the private sector would drool over".

On the face of it philanthropy may not be a priority for a bright executive working his way up through a private equity career, but for Benoit Vauchy at Permira, the partnership with Breakthrough (82) makes a difference. "What is great about this initiative…is that your employer, within reason, says 'I'm happy for you to give your time and to use what you do best'." For Benoit this is an aspect of the firm not usually associated with Europe's largest buy-out fund: "At Permira there is a culture which is a very human culture".

As part of creating a culture where individual philanthropy is the norm, more companies need to realise that philanthropy is not a one-way street. It is not only about charities benefiting from the time and expertise of a company's employees, but also about those employees gaining valuable experience and the company being able to attract the best talent.

3

Means

Once an individual knows that he or she wants to give, the next step is to decide what resources to employ. These can be financial capital in the form of cash, shares and other assets or social capital in the form of time, skills and networks. To get full satisfaction from philanthropy it is important to maximise the capital employed, for example by claiming all appropriate tax reliefs or ensuring that skills are used as effectively as possible.

When starting out on the philanthropic journey, the main resources available are likely to be the simplest form of cash and perhaps some volunteering of time. But as individuals mount the career ladder and become wealthier, their asset base may become more varied, so that they may also donate shares for example, and be able to volunteer more time. In the same way that investors diversify their investment portfolios, donors will want to consider how they can make philanthropic use of their full range of assets. Many interviewees extolled the benefits of combining direct personal involvement with monetary gifts and felt that was the best way to maximise all resources. As entrepreneur Chris Mathias (18) said: "I never give money simply by giving money because the impact of money and time is far greater".

Maximising the means available is important at all stages. At the beginning, when individuals do not have much to give in terms of wealth, tax incentives and company matching of their employees' gifts can be vital. Much later, gifts may be so large that tax effectiveness is critical for creating wealth for philanthropy as well as managing personal wealth. And the skills the philanthropist has acquired from a lifetime of experience may be so extensive as to require careful scheduling and targeting. To maximise returns for both philanthropist and recipient organisation, it is important to consider all the tax treatments of financial capital and the best use of social capital.

3.1 New Models for Creating Philanthropic Wealth

In recent years we have seen the emergence of the so-called new philanthropist. Opinions vary as to whether what they are doing is really new, but one of the uncontested aspects of the phenomenon is the dominance of newly-generated wealth over the more traditional inherited wealth.[1] It is not that the model of the self-made billionaire philanthropist is new – one has only to think of Andrew Carnegie or John D. Rockefeller – but there has been a shift towards newly-created wealth as the driving force behind philanthropy, which reflects the general pattern in the world today. In 2007, three-quarters of those appearing in *The Sunday Times* Rich List were self-made billionaires or millionaires and only a quarter had inherited their wealth, the exact reverse of the situation twenty years ago.[2]

In the UK the financial services sector is a major driver of the economy. According to official figures it contributed 9.4 per cent of GDP in 2006.[3] Unofficially it is considered to contribute much more. A substantial number of the nation's newly

1 See, for instance, "The Business of Giving – A Survey of Wealth and Philanthropy", The Economist, 23 February, 2006

2 *The Sunday Times* Rich List, 30 April 2007

3 MacKenzie D, *Economic Contribution of UK Financial Services* 2007, International Financial Services London, 2007

wealthy individuals have made their fortunes in the financial services industry. In *The Sunday Times* Rich List for 2007, 117 of the UK's top 1,000 richest people had earned most of their wealth in the FSI.[4]

The most straightforward approach for philanthropically-minded financiers or business people is to give away the money they have made as direct cash donations to the causes that they care about. This is the bedrock of philanthropy. However, more and more professionals in financial services are using alternative, highly-structured ways to raise or leverage money for philanthropy. After all, philanthropy can be seen as another form of financing and these are individuals who have created their personal capital through their skills in investment, asset management or trading. Now they are using their social capital to maximise financial capital for philanthropy. All the new approaches share this common thread: leveraging resources.

The hedge fund industry has been the focus of significant wealth creation in recent years and also of innovative philanthropic organisations. Two of the most high-profile philanthropic initiatives linked to hedge funds in the UK, the Children's Investment Fund Foundation (CIFF) (40) and Absolute Return for Kids (ARK) (42), take different but highly effective approaches to raising capital.

CIFF is inextricably linked to the hedge fund run by its founder, Chris Hohn. When he set up the Children's Investment Fund (TCI), CIFF was built into the strategy and structure of the fund. A percentage of management fees and a percentage of profits (above an 11 per cent hurdle) are channelled directly into the foundation. Any assets that the foundation does not use in a given year are reinvested, mostly in TCI where they can make substantial returns. The purpose is to produce "the highest returns for children in the developing world", says Jamie Cooper-Hohn, chief executive of CIFF. Establishing this model required lengthy discussions with the Charity Commission, but she is complimentary about its work: "They do see their position as providing guidelines and not laws."

ARK raises funds through a prestigious peer network. The majority of fund raising takes place at its annual dinner, a glamorous event that attracts the luminaries of the hedge fund industry, as well as the great and the good from other sectors. It aims to channel its funds to areas of need through a highly focused and structured operating organisation. Managing director Paul Bernstein says that this allows ARK control over where it gives grant money as well as "business-like measurability and accountability".

New philanthropic ventures emerging from the private equity industry have mirrored these two models. The Private Equity Foundation (PEF) (44) has taken the ARK approach of fundraising through peer networks. It aims to leverage the resources of the private equity community as a whole and so act as a focus for the industry's philanthropy. Sir Tom Hunter's West Coast Capital (27) has parallels with Chris Hohn's TCI, in that one of reasons for its creation was the generation of philanthropic capital. Unlike CIFF, West Coast Capital is not structured to direct a given percentage to a charitable structure, but Sir Tom has stated publicly that he intends his foundation to benefit from a significant proportion of the profit generated by his investment company.

These examples of philanthropic vehicles linked to hedge funds and private equity companies, now broadly understood and accepted by the financial services industry, use the social capital of the industry for philanthropic gain. However, in other areas of the FSI these models cannot be easily replicated and it may not be immediately obvious how specific skills can be best applied.

For traders there is an innovative solution. Execution (35), a small agency bro-

4 *The Sunday Times* Rich List, 30 April 2007

The Children's Investment Fund Foundation (CIFF) is funded by a proportion of the management fees and profits generated from hedge fund The Children's Investment Fund (TCI). Chris Hohn runs the hedge fund and his wife, Jamie Cooper-Hohn, the foundation.

"For Chris and me one of our shared values is our desire to make a difference in the world that is substantially bigger than ourselves," says Jamie Cooper-Hohn about the motivation behind their powerful new model for philanthropy.

From a modest background – the son of Jamaican parents who emigrated to Britain in 1960 – Chris Hohn graduated from Southampton University, excelled at Harvard Business School, and ended up at Perry Capital in London. But it was in the Philippines, during a five -month banking job, that Chris came face to face with poverty. Jamie recalls one of their early dates together: "He showed me his photo album of the children in the garbage heap in Manila. He was spending his weekends helping kids in the dumps, and seeing that extreme poverty up close deeply affected him."

In 2002 Jamie, an economics graduate who had made her career in the non-profit sector, intended to step back from full-time work to raise their four children. The couple decided the time was right to set up a family charitable foundation. "We wanted our children to grow up in a family where philanthropy was considered the norm", says Jamie, who ran the new foundation from home.

Shortly after, she recalls, they realised that "clearly the next natural step for Chris was to run his own hedge fund, and so we started to define what that would look like as well". They wanted to combine a top performing hedge fund with philanthropy, drawing on their combined skills and passions. The result was an unusual hybrid – a hedge fund that channelled a significant proportion of its fees and profit to a charitable foundation. One third of TCI's management fees go to the foundation, plus half a percent of all assets under management if profits to investors reach a target 11 per cent net return. The fund kicked off at £700 million, with a highly unusual lock-in for investors, and has now grown to several billion pounds. **In five years the hedge fund has allocated nearly £700 million to the foundation. Jamie never imagined that the foundation's assets would grow so large, and is determined to turn that opportunity into "the highest returns for children in the developing world".**

The foundation works with children in sub-Saharan Africa and India, focused on HIV-Aids, water and sanitation, education and emergency aid, mostly through international NGOs, but also working with governments and local charities. Jamie is adamant that the foundation should add as much value as possible to the funding: "We always went into it saying that we will be additive, there will be strategic entry points and that we will have demonstrable impact." Their model of "five countries and four themes" keeps the organisation focused, and working with only a handful of core grantees in a venture philanthropy model allows them to work intensively with each. Jamie is excited about what she feels can be achieved with her project team, saying: **"We really do have people who anyone in the private sector would drool over."** But she runs a tight ship and expects her employees to "justify that the burden of due diligence and high engagement gives the programmes greater impact". In the last reporting year CIFF spent over £5 million on charitable activities, the bulk on its HIV-Aids programme, and Jamie is open about the fact that, until its own internal portfolio management and evaluation resources are fully established, grants will not match its income levels. As Rockefeller and Carnegie both found, giving money away effectively can be harder than making it.

The unique linkage of hedge fund and foundation is generating several hundred million philanthropic pounds each year. **While the foundation's infrastructure is steadily**

built up and high-impact projects evaluated, the foundation's assets are invested – the bulk being put back into TCI where they return "40 to 50 per cent every year with no fee", says Jamie, "but that first required an exemption from the Charity Commission". The commission requires a charity's assets to be diversified with due consideration of risk. Holding the majority of a charity's assets in a hedge fund (even the one that created the asset in the first place) is thought too risky for funds held in public trust. But Jamie is complimentary about the Commission's position, which permitted the foundation to invest in TCI: "I do believe if you go to the Commission with a reasonable thoughtful argument, they do see their position as guidelines and not laws." It should encourage other hedge fund managers to know that the skills they used to create wealth can equally be deployed growing philanthropic assets.

TCI is an iron fist in a velvet glove. The fund attracts top talent not only because it performs so well (Chris is ranked second among hedge-fund managers globally), but also because it takes its social responsibilities so seriously and creatively: Jamie is sure there is a great business case to be made, quoting one of TCI's top managers, highly sought after by competitors: "You know what? I want to work for something that's a little bit more than about the pay cheque." She admits there was a more intense relationship between fund and foundation in the start-up days, when "everyone was crammed in the same room", but even today "there is a real interest and I still think it's special for people to have the connection."

Twice Eurohedge Fund of the Year, TCI is a remarkably successful business start-up. Chris Hohn has made a name for himself as a fund manager and relentlessly activist shareholder, but it is his partnership with Jamie in creating one of the most innovative and generous business models of modern times for which they will be remembered.

ker and ICAP, the world's largest inter-dealer broker, (45) each hold an annual day when total daily revenue and broker commissions are passed directly to selected charities. Over the years, ICAP's Charity Day has become a major event in the charity calendar, with celebrity patrons attending or taking part in telephone trading. As we have seen, the charity trading day is also a highly effective tool for motivating individuals and for creating a philanthropic culture.

The professionals who set up these four organisations have all employed innovative mechanisms that are closely aligned with existing business models to maximise wealth creation and use of skills. Given the financial and social capital that exists in the City, if more individuals and companies were to use their core skills for the purpose of philanthropic fundraising, the benefits would be huge.

3.2 Maximising Wealth for Philanthropy

The models highlighted in 3.1 for creating wealth for philanthropy are new and maximise financial capital through use of relevant social capital, but they also adopt structures for their philanthropic vehicles that allow them to maximise further the wealth created. CIFF and PEF are both charitable foundations and ARK is an implementing charity, so all of them benefit from the associated tax advantages. From making individual cash donations to running an operational foundation, tax incentives and maximising capital are important levers for philanthropic wealth creation. We look at the available tax incentives for philanthropy in order to understand their role in maximising the pool of funds available and to determine any barriers they may be creating along the journey.

Absolute Return For Kids (ARK) is a charity founded in 2002 by Arpad Busson and a number of other senior figures from the alternative asset management industry. Paul Bernstein is currently managing director of ARK, and Stanley Fink is a trustee.

"Another awards dinner was not what the hedge fund industry needed, but raising money for children's charities and spending it effectively with measurable returns was" says Stanley Fink of Man Group, an early supporter of ARK (Absolute Return for Kids). And that goal certainly has been achieved – ARK's income increased by 50% over the last financial year, with its flagship fundraising event – a Gala Dinner in London – raising a record-breaking £26.6 million in a single evening. What started out as an annual bash for hedge fund managers was transformed in 2002 into a major charitable organisation committed to children and young people in Africa, Eastern Europe and the UK.

Reflecting on the motivation for setting up ARK, its Managing Director, Paul Bernstein says: "The trustees came together with a philosophy that said – 'we have a major opportunity to give in a different way – take control over how our money is distributed, run the programmes in a business-like way, and most importantly focus on delivering a social return on investment. We'll do that through an unwavering commitment to measurability and accountability'". But Paul admits that does not reduce ARK to simply spreadsheets and metrics: "You want to feel good about philanthropy, and the closer you are to the delivery of the projects, the stronger your commitment. There is a blend of heart and head, making sure you are passionate about what you do, but making decisions backed by objective, well-researched evidence, plus data to evaluate success. That blend of the emotional with the rational isn't generally present for normal business."

Five years on, ARK's mission is to transform the lives of children, through funding innovative programmes with hand-on management. Its three core programme themes are: HIV/AIDS; education for disadvantaged children; and deinstitutionalising children in orphanages, by boosting family-based care. ARK's HIV/AIDS programme is centred in South Africa where it funds staff and facilities for the government's anti-retroviral treatment programme. Its purpose is to stop children becoming orphaned, by keeping their mothers alive. This £17 million project has so far prevented over 39,000 South African children from being orphaned by or dying from AIDS, by focusing treatment to HIV-infected care-givers, as well as infected children. ARK expects this figure to double over the next 3 years. Despite being one of the largest NGO-funded and managed programmes in the region, ARK is careful to ensure it works through government infrastructure to leverage the health system and ensure sustainability. ARK also increases impact by leveraging funding from the US government and private foundations.

ARK sets up a management team and operating organisation in each country where it works, to create capacity locally to absorb large scale funding and deliver complex programmes. "We are in relatively few countries, but are scaling rapidly within them" explains Paul. The ARK trustees and other supporters remain well connected to operations thousands of miles away: "Every one to two months there is a conference call or a meeting between the team on the ground and the trustees to really thrash out business plans, strategy, growth and monitoring and evaluation," says Paul.

The level of involvement by ARK's trustees (all of them, like their chairman, Arpad Busson, leaders in the alternative investment industry) is not typical of a traditional foundation; they are highly engaged and clearly the quality and breadth of impact of ARK's work on the ground is personally critical for them. "The term board members apply to ARK is collective philanthropy", says Paul. "An environment where decisions are made collectively contrasts with the typical fund management firm. But it works very well and fits our model of philanthropy. It's a serious, focused, working board". Serious and generous: ARK's board and patrons all commit to ensuring that the organisation's

central administrative costs are covered, so that all money raised at the Gala Dinner – as well as donations through the year – go directly towards delivering ARK's programmes.

Stanley Fink became a trustee when ARK launched its UK programme to support Academy Schools; he is attracted by its commitment to prove its programmes really work, in the long term. "I think when you look at ARK compared with most charities there is a difference,", says Stanley, "ARK is absolutely determined to measure outcomes; to try and deliver the philanthropy in a way that you can see a tangible result."

Paul feels that people in the City are open to becoming more generous, but too frequently "they struggle to find great projects meeting their demanding giving criteria". He believes the work of ARK on the ground speaks for itself, and is just the kind of philanthropy people want to support and could continue to be expanded with great impact for children around the world.

The Role of Tax

Tax is important when maximising wealth for philanthropy, even if its role as a motivator is questionable. Once an individual has been inspired to give, tax efficiency can maximise the impact of the gift.

It is traditional in the UK to compare our philanthropic culture unfavourably to that of the US and to blame it at least partly on our tax regime. Many feel that the US system of straight deduction from pre-tax income is simpler and more likely to promote giving. Scott Mead, a former partner in Goldman Sachs, who has extensive experience of the US system says: ""In the US giving is significantly easier - you give $100, that $100 goes to the charity, they keep it, and there is a deduction from your adjusted gross income. It is much more straightforward." However, this can only work if individuals file a return before deduction of tax. Whilst "tax complex" high earners in the UK may file a return, they will also have income tax deducted at source through PAYE, as do all those in full-time employment who are not self-employed. Therefore a fundamental change of the tax system would be required.

The introduction of new tax incentives for charitable gifts, particularly following the Finance Act 2000, has improved the possibilities for philanthropy in the UK. Many of our interviewees who have made it their business to understand the tax incentives associated with giving believe that UK incentives compare fairly well with those available in America. However, the slightly greater level of complexity and the fact that the available incentives seem somewhat fragmented have prevented people from realising this.

Scott Mead said: "The Blair government did dramatically improve the tax efficiency for philanthropy. The problem is that it is still relatively cumbersome." David Verey, UK chairman of private equity firm Blackstone, has extensive charity experience. He said: "When people say of the US, 'oh we don't have the tax system that they have,' it's because they probably have the sense that the American system is simple. Somehow or other the sense that it is pretty easy over here needs to be got across."

Some interviewees even argued that when understood properly, our UK tax incentives were better than those available anywhere else. Jon Moulton, managing partner of Alchemy Partners, said: "Whatever else is right or wrong in the UK, the charitable giving tax structures are as favourable as anywhere on earth. I think they're better than virtually all other jurisdictions. Gift Aid is a huge benefit if you have got the income to take advantage of it. I certainly have been clever enough to make sure that I'd rather the money ended up with a charity than went towards the Iraq war."

A complete overhaul of the tax system in the UK to get to a US-style system for giving is both impractical and according to

The Private Equity Foundation was created by a group of Europe's leading private equity firms as the philanthropic vehicle to represent their industry. Shaks Ghosh is chief executive of the foundation.

The Private Equity Foundation (PEF) was a milestone in philanthropic collaboration. In 2006 some 70 of Europe's top businesses in the private equity "ecosphere" clubbed together to create a charitable foundation. Almost immediately, the foundation found itself caught up in the maelstrom of criticism of private equity and facing unprecedented public, trade union and government scrutiny. The foundation was an easy target for the cynics, but its chairman, Ramez Sousou, CEO of TowerBrook Capital Partners, confirms that its origins predate the attacks on private equity. Its ambitions are to create a collaborative, industry-wide philanthropy vehicle committed to real social impact.

Their newly appointed CEO, Shaks Ghosh, whose successful career has been in the non-profit sector, is clear that "the foundation was launched because its time was right, it was of the moment. The trustees had a keen sense of responsibility, of wanting to give something back." She recalls that Ramez challenged the founders to think about making significant impact by collectively raising a significant sum, initially targeted at a national children's charity.

Ghosh feels that private equity is the sleeping giant of philanthropy: **"Many private equity companies are just waking up to philanthropy – this is a great opportunity for the Private Equity Foundation. There are individuals who are personally and privately very big givers indeed. But I don't think their companies have really have got their heads around corporate social responsibility and philanthropy."** She sees that as changing now that private equity is off the blocks, and not for purely PR reasons. She feels that it is committed to identifying social causes it can put substantial weight behind: **"We want to see a needle shift on literacy, or whatever social ill we focus on, by getting our partner companies engaged in a way that brings more than just a cheque."**

many of our interviewees not necessary. Instead we assess how to simplify the existing system and refine the infrastructure so as to lower the perceived barriers to giving and maximise the effect of existing mechanisms. Maximising wealth through fiscal incentives is linked to the structure employed for philanthropy. Means depend on methods to a certain extent and vice versa.

In this section we focus specifically on tax incentives available to maximise wealth for philanthropy: Gift Aid, payroll giving and share giving are currently the main UK tax breaks on gifts, but we also consider other means which are available in the US, such as charitable remainder trusts and asset gifting. These include new assets for philanthropy, so we consider them in this section on maximising wealth. However, some of these are linked to new methods for philanthropy. In section 4 on methods, we consider other structures such as charitable trusts and donor-advised funds, which, while ensuring means are maximised, are structures that break down the barriers to giving by providing user-friendly methodologies.

3.2.1 Gift Aid

Gift Aid was introduced in 1990 and is the most commonly used form of tax relief on donations in the UK: over 90 per cent of all tax-efficient donations by value (excluding legacies) are made using Gift Aid.[5] It allows charities to claim basic rate tax on donations made by UK taxpayers. Higher-rate taxpayers can also claim the difference between higher-rate and basic-rate tax as personal tax relief. The general rationale is that it is not appropriate to tax capital being given away for the benefit of wider

5 *Analysis of Giving Through Gift Aid*, Charities Aid Foundation Briefing Paper, January 2006

ICAP is the world's largest inter-dealer broker. Chief executive Michael Spencer introduced ICAP's annual Charity Day in 1993, when the company's total daily revenue and broker commissions are passed directly to selected charities. This innovative trading day has raised over £33 million since then.

Michael Spencer says: "We were being asked by our staff to give to a charity here and a charity there and it was in a totally unstructured format. We thought about how to make it more efficient and how to motivate the whole firm and we came up with Charity Day."

Michael is clear about the motivation: **"We have always been very sensitive that our primary objective with Charity Day, as a successful business that makes a lot of money, is to give back to society and make the staff feel part of that giving."**

It is not compulsory for employees to participate. However, Charity Day has become a part of ICAP's culture and the staff look forward to it. "The guys in London were very, very enthusiastic and positive about it from the outset and over the years it has given us all a strong sense of participation and identity to a good cause, not only in London, but across all our offices globally," says Michael.

Charity Day has always been professionally managed by an employee dedicated to the selection of the charities and the organisation. Nikki Studt is currently ICAP's charity co-ordinator. Michael says that is critical to participation and its operation. "You have to have someone who really, really cares about Charity Day. Nikki is absolutely passionate about it."

Charity Day makes use of brokers' professional skills for maximum philanthropic gain. As an interdealer broker, ICAP facilitates transactions between banks and is paid a commission for this. On Charity Day, ICAP takes its total revenues and commissions from all of its clients' orders and distributes it all to charities that have been carefully selected and approved by a group of directors. All of the brokers forsake their commissions for the day and are, in effect, giving their money directly to the cause.

This is the most effective way for a broker to raise big money fast for philanthropy. Brokers do what they do every day, with the extra satisfaction of giving to a cause. Clients also also enter into the spirit of the event and tend to put their orders through ICAP specifically because it is Charity Day. The company does significantly more business on Charity Day than on any other day of the year.

All the donations to the selected charities are one-off, to allow ICAP to give to as wide a group of charities and causes as possible, but sizeable enough to have a real impact. As the contribution is entirely dependent on a day's trading which is, as Michael says, "in the lap of the gods", it is also important that a charity does not become dependent on this. There is usually a theme each year – such as medical research, children, education.

Charity Day is deliberately scheduled for December, close to Christmas, a time of giving and a time of fun. Making it exciting and keeping the momentum up is Nikki's biggest challenge. Patrons of the chosen charities are invited on to the trading floor Celebrities take client orders and the opportunity to close a deal with Prince William, Cherie Blair or Elton John is a significant driver of the revenue. The whole day has a party spirit with brokers dressing up (12 Joanna Lumleys with beehive wigs and shaved legs the year she attended) and refreshments delivered to desks so that the employees do not have to go out for lunch.

On the first Charity Day in 1993, ICAP had only 100 staff based in London. In 2007, Nikki co-ordinated 3,500 staff in 31 centres around the world – a massive exercise.

Michael says: "It suits us ideally because we start at a certain time in the morning, we finish at a certain time of day and then we are done. We tally up our revenues and we know immediately what we have achieved and the amount

of money we have raised".

Last year ICAP raised £7.1 million out of annual revenues of £1.1 billion. When Michael hears a sharp intake of investor breath, he points out that this is not a representative percentage as they do not do that level of business on a normal day.

Nikki spends the best part of the year filtering charities that ICAP might want to support. To make its philanthropy is effective ICAP likes to give large sums to a small number of charities or projects and Nikki conducts due diligence to make sure that the money is spent wisely. ICAP has tried to support initiatives close to home. This helps to generate enthusiasm among employees – as many will have had direct experience with some of the charities selected – and makes it easier to monitor how the money is being spent.

This strategy is repeated in ICAP's offices around the world.. During the year many of the beneficiaries come back to ICAP to tell their stories to the brokers. For example Moorefields Eye Hospital is just by Broadgate where ICAP is based and the company supported the opening of the ICAP special eyes room in the new children's hospital. **"It is on our doorstep and everyone at ICAP can see physically where the money has gone which creates a strong connection and a constant incentive to do more."**

society. In effect, it costs a basic-rate taxpayer 78p to donate a pound and a higher-rate taxpayer 60p. The Finance Act 2000 introduced a number of key changes to the Gift Aid system. The main one was the removal of the £250 lower limit on donations, so that it is now possible to claim Gift Aid on donations of any size.

Benefit to Donors

In 2004-05, the amount recouped by higher-rate taxpayers via the personal tax relief on Gift Aid totalled £150 million. The Charities Aid Foundation (CAF) has estimated from this that the amount donated by higher rate taxpayers in this period, on which they received this personal tax relief, was roughly £830 millon.[6] This is almost one third of the £2.8 billion gross that charities received from Gift Aid. Since higher-rate taxpayers make up only about 11 per cent of all UK taxpayers, this shows that they make an important proportional contribution to charitable donations through Gift Aid.[7]

A survey on giving by wealthy people carried out by Ipsos MORI for HM Revenue and Customs in April 2007 highlighted that although most of the interviewees were aware of the main function of Gift Aid – enabling charities to reclaim basic-rate tax on donations – many were either unaware of the relief available for higher-rate taxpayers or were discouraged from claiming it by the requirement to keep records of all charitable donations. This means that they are leaving money available for themselves or the charitable sector with the Exchequer. It is important to note that those interviewees who had a charitable account found the administration less of a barrier because the account provider keeps the records on their behalf.

The proportion of donors using Gift Aid since the changes in 2000 has increased from less than 1 per cent in 1999-2000, to around one third in 2004-05.[8] The value of Gift Aid donations has grown on average at about 11 per cent a year since the system was set up in 1990. However the average gift size has been falling since the tax changes in 2000.[9]

As a result of its research, CAF drew a number of conclusions about issues underlying the trend of increasing Gift Aid donations:

- A large proportion of the increase is due to the conversion of existing donors and existing giving.
- There have been few new donors as a result of the scheme.

6 This estimate assumes that higher-rate taxpayers reclaim the personal relief on all their Gift Aid donations.

7 *Analysis of Giving Through Gift Aid*, Charities Aid Foundation Briefing Paper, January 2006

8 Ibid

9 Ibid

- A small amount of new charitable money has been generated.
- A small number of larger gifts have been raised.

Benefit to charities

Gift Aid has had a clear effect on the level of income available for charities in the UK: in 2005-2006, £751 million of tax on contributions was recovered by charities through the Gift Aid scheme.[10] The value of gross individual donations made through the scheme rose from £0.8 billion to £1.8 billion between 1990-91 and 2000-01, and then rose by another billion to £2.8 billion by 2004-05.[11]

Gift Aid Issues

Despite the success of Gift Aid in raising the income of the charitable sector, there is still concern that the benefits are not being maximised. The National Council for Voluntary Organisations (NCVO) estimates that if there was full take up of Gift Aid the amount recovered by charities would be nearer £1.5 billion, rather than the £751 million it stood at in 2005-06.[12]

Although Gift Aid has increased the amount of money available to charities, there is still a significant gap between the potential benefits of the scheme and the actual benefits accrued. Understanding of Gift Aid by donors and charities has improved in recent years and research by both CAF and HM Revenue and Customs shows that the fundamental basic-rate tax reclaim by charities is now fairly well understood. Our own poll of senior employees at Citi in the UK showed that 83 per cent of them used Gift Aid when making donations. However, there is still confusion among higher-rate taxpayers over the additional personal tax relief available to them as the recent Ipsos MORI study for HM Revenue and Customs highlighted. The research had a positive outcome in that some of the interviewees said their giving would increase now that they understood the higher-rate relief: "In terms of the other element of Gift Aid-provision for taxpayers to personally claim back the difference between basic and higher-rate tax – some large donors, who were unaware of this rule prior to taking part in the research, thought they might give more to charity now they were aware of this possibility."[13] The reduction in basic rate income tax from 22 per cent to 20 per cent, due in April 2008, will increase the value of the personal relief for higher rate tax payers to 20 per cent from 18 per cent.

There are frequent complaints that charities are overwhelmed by the administrative burden of the Gift Aid system. One of the purposes of the removal of the £250 lower limit on Gift Aid donations in the Finance Act 2000 was to democratise tax-efficient charitable giving. One of the factors underpinning the overall increase in Gift Aid donations, cited by CAF, has been the trend away from a smaller number of higher-value donations to a larger number of lower-value ones. This has increased the amount of paperwork charities must do to reclaim the Gift Aid money owed to them.

Existing Proposals for Changes

In response, in June 2007 the Treasury announced a consultation with the charitable sector on the issues affecting Gift Aid and a number of voluntary sector organisations have submitted their views. There are two main proposals for Gift Aid reform that would have a major impact on donors:

1) Flat Rate VAT-Style

This proposal advocates simplifying the mechanism by which charities reclaim tax through Gift Aid. Rather than having to obtain and verify individual declarations from every donor, charities would automatically receive an amount from the Treasury based on an assumed percentage of donors who are taxpayers. The Social Justice Policy Group (SJP) suggested that this percentage may be as high as 80-85 per cent.[14]

10 *Proposals for the Future of Gift Aid: A Consultation Paper*, National Council for Voluntary Organisations, July 2007

11 CAF op cit

12 NCVO op cit

13 *Charitable Giving by Wealthy People*, for HM Revenue and Customs by Ipsos MORI, April 2007

14 *Breakthrough Britain* vol 6: Third Sector, Social Justice Policy Group, July 2007

Supporters argue that it would reduce the administrative burden on charities, particularly beneficial to medium and smaller-size organisations, and solve the problem of the large amounts of unclaimed Gift Aid.

Critics say it removes the donor incentive of Gift Aid entirely. NCVO has suggested that this is not a problem because "Gift Aid is not a mechanism to drive up giving; it is only a mechanism to drive up the amount raised through donations."[15] This appears to be at odds with CAF's view that: "The aim of allowing higher-rate taxpayers to reclaim the marginal rate of currently 18 per cent on donations is to incentivise them to both give, and to increase their giving."[16] These differing views perfectly illustrate a critical problem: there is little agreement as to the actual purpose of Gift Aid.

It also removes the right of choice from the donor over whether or not to make a Gift Aid declaration. CAF argues that it should remain the right of the donor to decide and it should not be a universal right of all donations. In CAF's view, breaking the link between donor assent and tax reclaim would move Gift Aid from the realms of tax reallocation to that of "grant monies" and thus fundamentally alter government attitudes to it. NCVO agrees: "If the scheme were altered, for example through introduction of a 'flat Gift Aid rate' the nature of this funding would alter from a tax rebate to government funding. This would bring the scheme into public expenditure and public spending totals controlled by the Chancellor. Thus, the Exchequer would then specify the purposes of these monies…Such changes could also have potentially detrimental implications for the relationship between charities and donors."[17]

2) Abolition of dual-rate system

Another proposal advocates abolition of the differing treatment of basic and higher-rate tax, in which one is reclaimed by the charity and one by the donor. This opens up the issue of whether tax relief should go entirely to the charity or entirely to the donor.

NCVO suggests a change to a system in which the full rate of a donor's tax can be reclaimed by the charity, regardless of what rate they pay: "Given that there is little use of the individual tax rebate to higher-rate taxpayers, government should explore mechanisms to enable these individuals to make Gift Aid donations at the higher tax rate at the time of making a donation as well as at the end of the tax year. Consideration should also be given to the anomalies in the current system, which provides an individual incentive for charitable giving to higher-rate taxpayers but not to other taxpayers".[18]

Philanthropy UK, the Association of Charitable Foundations (ACF) and CAF have all opposed this, arguing that the removal of the donor benefit for higher-rate taxpayers would be detrimental. Research conducted by Philanthropy UK,[19] CAF and HM Revenue and Customs[20] has suggested that the higher-rate incentive is important for determining the amount of giving even if it is not a direct motivator to the act of giving.

Philanthropy UK and others have argued that the full tax benefit should go to the donor. This is based on attitudes of wealthy donors, many of whom are advocates of the US system of tax relief. However, this prompts concerns over the potentially detrimental effect on income for the charitable sector. David Dixon, writing in the Philanthropy UK newsletter claimed that: "Any move to allow the donor to reclaim all tax relief would be disastrous for charities because only a proportion of donors would give the tax relief back to the charity, so many millions of pounds in Gift Aid income would be lost to charities."[21]

A division between small gifts, on which the tax benefit goes to the charity, and

15 NCVO, op cit

16 Response to HMRC Gift Aid Consultation, Charities Aid Foundation, September 2007

17 NCVO, op cit

18 Ibid

19 *Why Rich People Give*, Philanthropy UK, 2004

20 Ipsos MORI, op cit

21 Philanthropy UK e-newsletter Summer 2006

large gifts on which the full benefit goes to the donor has been mooted by Philanthropy UK: "A key finding from our 2004 research [is] that wealthy, active philanthropists want to be able to claim back the full relief (including the basic rate) in self assessment. Essentially our research suggested that for a gift over £x amount, the tax relief should go fully to the donor."[22]

Resolving differences in existing proposals

In the US any itemising taxpayer can set the value of charitable donations (up to a limit) against their gross income for the year and reduce their tax bill and benefit from the tax advantage. However, because all those in full-time employment in the UK who are not self-employed pay income tax through PAYE, tax relief on charitable donations comes in the form of a reclaim rather than a deduction. The difficulties arise due to the differing treatments of basic and higher-rate tax. The rationale behind the basic-rate relief is that the repaid tax must go to the charity to which the original donation was designated. The rationale behind the higher rate is that the basic-rate relief must go to the designated charity, but the donor must retain choice over what to do with the remaining tax (if they reclaim it).

Currently Gift Aid tries to be all things to all people. It aims to enable charities to maximise the value of donations and act as a tax-break for donors to encourage more giving. To shift away from the former aim would result in an immediate loss of income to charities with no certain increase in levels of giving. To shift away from the latter aim could reduce the amounts given by higher-rate tax payers. Philanthropy UK tried to bridge this with its proposal to introduce a limit on donations above which the full tax benefit would go to the donor.[23] However, determining what counts as a "major gift" is problematic.

Our interviews, like the research by Ipsos MORI and Philanthropy UK, suggest that the personal tax reclaim acts as an incentive for higher-rate taxpayer donors in some cases. The evidence is anecdotal and it is impossible to put a definite figure on the value added by the higher-rate relief. The Ipsos MORI research highlights that the administrative burden of itemising donations on a personal tax return is a possible barrier to reclaiming higher-rate relief. Our interviews suggest that this is less likely at the highest levels of giving since the reclaim available outweighs the administrative burden.

Any unclaimed personal Gift Aid relief remains with the exchequer. In recognition of the fact that there are higher rate taxpayers who would prefer their unclaimed benefit to go to the charitable sector instead, proposals have been made to introduce a separate tick-box on the Gift Aid declaration for these higher rate taxpayers. However, this raises issues of extra administration for charities and concern for higher-rate donors over how the information on the declaration would be used and whether they would be singled out for subsequent fundraising.

Maximising wealth through Gift Aid

An anonymous way of achieving the same result would be to introduce a separate section on the tax form to specify use of the higher-rate relief and allow individuals to direct it to an approved charity. This improves on the current system of self-assessment giving,[24] by distinguishing between charitable reclaims (the exact amount of which is known in advance as a result of the split reclaim mechanism) and other tax refunds. It would be possible for a higher-rate donor to give their relief to any charity under this system, but if individuals nominated their charitable account as the recipient they would increase their pool of funds for philanthropy and have control over their use.

22, *Consultation on Gift Aid* Comments from Philanthropy UK and the Association of Charitable Foundations, September 2007

23 Ibid

24 Self- Assessment giving (or SA Donate) is an initiative that enables anyone completing a self-assessment tax return to nominate a charity from an approved list to receive all or part of any repayment due to them. See www.hmrc.gov.uk/charities/donors/sadonate.htm

Hedge fund managers' pay structures: annual lump sums of cash

Hedge fund managers are typically paid based on a "2-and-20" structure, consisting of a 2 per cent management fee, on top of which they take 20 per cent of any profits.[25] Compensation is paid in a lump sum at year end making hedge fund managers key potential beneficiaries of higher-rate Gift Aid. This also makes them target users of charitable accounts and trusts, given the ability they provide to park funds and use them when desired (see sections 4.2.1. and 4.2.2.).

Furthermore, if the individual's charitable account provider was authorised by higher-rate taxpaying donors to reclaim the refund directly for their account, the administrative barrier associated with the reclaim would be removed. Given that the charitable account providers already provide the statements detailing donations that donors use to make reclaims, empowering them to action the reclaim is the next step.

The additional funds to charities and the reclaim for the higher-rate donor under Gift Aid are both attractive, but the donor element is complex and not fully understood. Retaining those benefits, but adopting a giving methodology that removes the barrier of complexity would prompt maximum, easy use of the incentive. We discuss charitable accounts as a core methodology for efficient and organised philanthropy in Section 4.

3.2.2 Payroll Giving and Matching

Payroll giving has enabled employees of participating companies to make regular pre-tax donations to nominated charities directly from their pay since 1987. Donations are deducted from the payroll before PAYE tax so there is a reduction in the amount of income tax deducted from the donor's pay providing immediate relief at the donor's highest rate of income tax. If an employee paying basic-rate tax donates £10 through payroll giving, they receive relief on £2.20 worth of tax, so the effective cost to them of the donation is £7.80. For a higher-rate taxpayer the advantage is even greater, as a donation of £10 will cost them only £6 and the entire relief goes to the donor. Although the benefit to charities from payroll giving may seem less than Gift-Aided cash donations where they reclaim the basic rate tax relief, in the longer term the sector benefits from the provision of a regular, guaranteed source of income.

Payroll giving schemes are administered by a number of different agencies, such as the Charities Aid Foundation, Charities Trust, the Charity Service Ltd and Working For Good. All these agencies are charities in their own right. A small fee – usually no more than 4 per cent or 35p per donation, whichever is the greater – may be deducted from a donor's gift to meet the agency's administration costs. However, some employers will pay the agency's charges so that the full amount of the gift can go to the employee's chosen charity.

Almost £89 million was donated through payroll giving from April 2006 to March 2007 (a 4.7 per cent increase from the previous year) and about 645,000 employees participated in the scheme.[26] The number of participating employers rose sharply, by 39 per cent, in this period, as more small and medium-size businesses instituted payroll giving after the introduction of the grants programme. This ran from January 2005 to December 2006, and offered £500 to any SME (with fewer than 500 employees) that set up a payroll giving system, as well as providing matching for the first £10 of each employee's monthly donations for six months up to March 2007.

However, payroll giving remains the sick man of charity fundraising, as it fails to gain traction amongst companies and

25 www.hedgeworld.com/ education/index.cgi?page=hedge_fund_basics

26 www.payrollgivingcentre.org.uk/facts per cent20figures.htm

employees. Now in its tenth year, payroll giving attracts overall no more than 3 per cent of the British workforce.[27] In response to this poor take up, the Institute of Fundraising has launched a root-and-branch review of the scheme following its return to the Home Office of nearly half of a £8.3 million Home Office grant.[28] The grant was given to help the Institute promote payroll giving but half the firms benefiting from grant support failed to recruit more than one new employee donor. The Association of Payroll Giving Organisations was launched in October 2007 with the aim of improving uptake and operations, but it will be no easy task to make payroll giving schemes attractive to employers, who often view them as an administrative chore adding little in the way of competitive advantage.

Maximising wealth through payroll giving and matching

Payroll giving encourages regular, tax efficient donations and we discuss it as a core methodology for "funding" a charitable account in section 4. Despite the poor take up in general, there are beacons of success. Private bank C. Hoare & Co reports that one third of its staff participate in payroll giving, thanks in large part to the leadership of its senior partners. Royal Mail achieves a 25 per cent take up in the scheme by its workforce, because of long term promotion within the company, a careful choice of charity partners and the services of a professional fundraising partner.

There is untapped potential to weave payroll giving into the cultural fabric of a company in the FSI. It is the first step in creating the habit of philanthropy across the workforce. Linked to an individual's own company charitable account it can provide a solid base of charitable funds, which can be supplemented by Gift Aid donations, shares and company matching schemes.

Our interviews confirmed that matching donations is considered an effective incentive for giving. Mark Evans, head of family business and philanthropy at Coutts private bank, summed this up: "One of the things that can be helpful in getting people started is a corporate matched giving scheme. That and setting up a charity account to make it easy to keep track of their charitable donations."

However, some interviewees felt that the full potential of matched funding has not been reached. Paul Molloy, managing director of Compton Fundraising, commented: "Matched giving programmes can be very powerful. Unfortunately, they tend not to be well publicised – internally or externally. Particularly by the banks. Consequently, from what I've seen, there's a great store of potential matched funding that's never called upon."

3.2.3 Share Giving

Share giving was one of the three policies introduced in the 2000 Budget to increase giving in Britain, along with the amendments to Gift Aid and the 10 per cent payroll giving supplement. However, despite the fact that the tax benefits available for share giving are the most generous available, it remains probably the least well-known and least used of tax-efficient means of giving.

In addition to the standard relief on capital gains tax (CGT) that applies to all charitable gifts of shares and land, there is personal income tax relief at the highest level paid by the donor. When shares are donated to a charity, the disposal is treated as having been made on a no gain, no loss basis for CGT purposes. The income tax relief available is calculated by taking the market value of the shares at the time of the donation, deducting any consideration given by the charity and then adding back any incidental cost of making the gift. This amount is treated as income and the tax calculated accordingly. This gives the value of the deduction that can be made against income tax paid for the year.

27 "Institute of Fundraising launches payroll giving review," *Institute of Fundraising* Press Release 13 June 2007

28 Rigby E, "Recriminations begin over payroll giving scheme", *Third Sector*, 6 June 2007

Investment banking pay structures: major components of shares

Investment bank salaries comprise large annual bonuses which can be the size of base annual salaries many times over. They are designed to make overall remuneration heavily dependent on performance.

Senior employees are frequently paid with a large proportion of restricted shares or options: the intention is to align motivations more closely to those of the company and to retain talent. In years of weak company performance they provide a low cost alternative to cash. In 2007 there has been much reporting of high expected levels of shares and options in bonuses. A windfall of shares or share options once a year at bonus time makes investment bankers a critical target for gifting shares for philanthropy.

For example: you decide to donate £100,000 worth of shares, which you originally bought for £30,000. You have made a gain of £70,000 on the shares and if you sold them at the market value you would be charged 40 per cent CGT which is £28,000. However by gifting them, you are not charged CGT and you would be able to take 40 per cent of the market value of the shares in personal income tax relief, in this case, that means 40 per cent of £100,000 which is £40,000 relief. You save yourself being charged £28,000 in CGT and you benefit from £40,000 in income tax relief. So you have managed to make a tax free gift of £100,000 to charity. If you had given cash, as a higher-rate tax payer you would have received only the difference between basic and higher- rate tax. So the incentive to give shares is greater for the donor.

It is also possible to increase your benefit by selling the shares to the charity at the price they were purchased at, rather than gifting them in their entirety at the current market value. So in our example, this would mean that instead of donating the £100,000 of shares, you sell them to the charity at the original purchase price of £30,000. The charity then owns shares worth £100,000 for which they have paid £30,000 and the remaining £70,000 is treated as the amount of the gift. It is on this sum that the tax reliefs are calculated. The CGT saving is 40 per cent of £70,000, which is £28,000. The personal income tax relief is calculated as 40 per cent of £70,000 rather than £100,000, which is £28,000. So the donor recoups the original purchase price of £30,000 from the charity for the shares, plus £28,000 in income tax relief on the £70,000 gift value, for a total of £58,000. The charity has a gift of £70,000. However, the charity is "at risk" as it has paid a purchase price for the shares.

It was apparent from our interviews that levels of share giving are low and the tax mechanism is not well understood. For instance, our poll of senior Citi employees in the UK showed that only 6 per cent of those polled had ever given shares. There was a clear sense from those who did understand the mechanism that there is greater potential for giving in this way, particularly from professionals in the financial services industry who understand complex financial and tax structures.

Harvey McGrath, former chairman of Man Group (31), emphasised the potential attractiveness of share giving to professionals in the FSI when he said: "Yes it seems complicated, and I can sympathise, but remember a lot of these people we're talking about eat and drink this stuff. So I find it surprising that they don't appear to be particularly aware of it and clearly don't understand it. From my point of view, having enjoyed the opportunity to own equity in the public company I have worked for, this regime is attractive. Gifting shares to charity at their market value; deducting that value from taxable income and not having capital gains liability is very appealing."

Maximising wealth through share giving

Anna Josse of Prism Charity (70) said: "Gifting shares is incredibly tax efficient

Share and Share Alike is the brainchild of Richard Bernstein, chief executive of Eurovestech plc. It has applied to become a registered charity, allowing it to receive company shares and gift them on to charities.

When Richard floated his high tech venture capital company, Eurovestech, on the London Stock Exchange in 2000, he piled most of his money into the company in a personal investment of £2 million on the same terms as institutional investors. This meant that he had little liquid cash assets left for philanthropy, but as the founder and a significant shareholder, he was able to influence the company's direction. He has built his career on understanding companies and markets: Eurovestech is one of the best performing technology funds in Europe, having quadrupled since 2000.

He felt very aware of wealth creation in the City and in technology at the height of dot.com boom and he desperately wanted his new company to fulfil its responsibility to society at large; he also wanted to be able to engage in philanthropy himself. At the outset, he decided that this would be part of his and the company's strategy and anybody who bought into the company would have to support this charitable initiative.

Richard is resolute about gifting a certain number of shares to charities approved by the Eurovestech board each year and sees it as his responsibility to carry this on over time and, crucially, to get other listed companies to follow his lead. Lots of people ask him questions about risk, dilution and the administrative burden, but he can explain them all away: "When you see that issuing a piece of paper translates into helping good causes, then you will realise that there is no catch." Although he is predominantly motivated by his desire to be philanthropic, he is also an entrepreneur and is excited that his idea could generate millions in long-term finance for charities. **"Over the last five years we have created and gifted several million shares which have a value of over £1.5 million to dozens of charities, so we have already proven that there is a huge, untapped pool of funds for charities"**, he says.

Richard implements Eurovestech's share gifts himself. It is, he says, "very simple". In his own words: "Step 1, raise it as an item a board meeting for a vote; step 2 announce it to the Stock Exchange; step 3 fill out a form and file it at Companies House to record that there are more shares in issue." He has set up a stand-alone charitable vehicle, Share and Share Alike, in order to bring other companies on board. The other alternative now, of course, will be to give the shares to it.

The way it works is that Richard pays the par value for the shares and the company then gifts them to the charities. The shares are of course worth their market value. Some would say that the charity is then holding a risky piece of paper, and that may well be so: Eurovestech is a venture capital fund which is not low risk in investment terms. But the charity did not buy the piece of paper, it was a gift, so if the market value declines during the time the charity holds the shares, it will still be greater than zero when the charity decides to sell; the charity itself has not taken on any of the risk.

In fact, most of the downside falls on Richard, who has to pay for the shares with his own money at nominal value: £77,000 over the past seven years. The 1p par value of the shares compares to the 21p current price, so charities have received more than £1.5 million of donations. However, he does not get tax breaks or incentives of any kind because although he pays for the shares, they are not gifted by him but by the company. This means that they do not qualify under the current tax legislation. In addition, although the shares are a gift paid for by the chief executive, they have to go through the company's profit and loss account as a "cost" at market value which is a communications issue only, but significant nonetheless. Previously the disposal as a

"gift" would only be reflected on the balance sheet, but accounting standards now require that these donations be treated as share-based payments.

The only real concern with gifting new shares "lies in the quantum of shares issued and gifted", says Richard. It is true that any issue of new shares creates dilution to a degree and that can have an impact on the market price of existing shares. Richard's vision lay in putting his strategy for Eurovestech into the company's prospectus for its initial public offering, so anybody who bought shares in the company at the beginning also bought into the charitable share gifting as part of the core company strategy.

But he also counters this concern by gifting only small amounts of shares at any one time: since 2000, there are 2.5 per cent more shares in issue as a result of charitable donations. Initially, he was also careful to ask charities to hold the shares for a year after the IPO so that their sale could not affect market performance.

Many would ask why he bothers. Why not just give the cash? Quite simply, he feels a desire to be philanthropic and this is the only way he can do it, as Eurovestech does not have pools of ready cash. Setting up Share and Share Alike is the next step. Richard has worked out that if all the top FTSE100 companies created new shares and gifted to charities just 0.1 per cent of their share stock it would have an enormous impact. The average market value of a FTSE 100 company is about £13 billion, a tenth of 1per cent is £13 million pounds for each company and so for 100 companies that is £1.3 billion.

Under this structure, **there is also the potential to build up a vast endowment for Share and Share Alike to manage in the very long term.** Indeed, if the top FTSE 100 companies were to give £1.3 billion of stock, the dividends of those shares would be £400 million per annum at current average rates.

Richard says that he sees positive reactions from charities. They particularly welcome the fact that the use of the donation is unrestricted. Some know immediately what they want to do with the funds, sell the shares and allocate the capital straight away; others hold them for a while.

There are encouraging signs that Share and Share Alike is gathering momentum. In April 2007, online market research company Toluna plc, became the second listed company to gift shares – to a total of five charities chosen by the company's 100 staff and in November 2007, shareholders in fleet management company Helphire plc, approved the issue of up to £4 million of shares for charitable causes.

As the founder of a technology fund, Richard is fiercely protective of the rights and patents of the companies in which Eurovestech invests. Yet in the case of Share and Share Alike, he is anxious to get as many companies as possible to copy him. As he says: **"If three people sitting in one room in Central London have already gifted more than £1.5 million to worthy causes, just think how much could be raised if other companies follow suit."**

but the Government has not pushed it and the awareness is very low". She is concerned that people talk about the tax incentives on share gifting as being "too complex" as they are "about as attractive as they could be" and it would be a shame if the government changed them. There are ways to reduce administrative complexity for donors. By using Prism's donor-advised fund method, the burden of the tax complexities is moved on to Anna; by using a charitable account or trust, the burden is moved on to the provider or administrator (as we discuss in Section 4 on methods). If the administrative burden is removed from the donor by adopting one of these methods, there is potential for an increase in levels of share giving, making a significant contribution to maximising the philanthropic pool of funds. Anna supports a

campaign to raise awareness about the attractive fiscal incentives for giving shares so that more people understand the benefits of share gifts, whichever methodology is adopted.

3.2.4 Charitable Remainder Trusts (CRTs)

CRTs are planned giving vehicles available in the US. A donor can transfer assets to a special trust fund that has a legally guaranteed recipient charity. The donor receives regular payments from the fund, based on a percentage of the principal, until his death or for a maximum period of 20 years. On the donor's death or the spouse's death, whichever is the later, the funds left in the trust go to the nominated charity (the charitable remainder). All gifts of assets into CRTs are free of capital gains tax, and are removed from the donor's taxable estate. In addition, there is an immediate income tax deduction of between 30 and 70 per cent, depending on an actuarial calculation based on the donor's age and the payout rate.

There are also other kinds of planned giving vehicles in the US, all of which enable donors legally to gift assets to charity while retaining some benefit during their lifetime. These have been effective in encouraging giving among the so-called "mass affluent" – people who perhaps are not rich in cash terms, but who are comfortably off and may have significant illiquid assets such as property. Their popularity is attributed to their ability to remove concerns about future changes in an individual's financial situation. Individuals are more likely to part with a sizeable sum if they are assured of an annual payout regardless of changes in their personal circumstances. This is particularly the case with gifts of illiquid assets such as property and there are even vehicles in the US that allow individuals to gift a property while retaining the right to live in it until death.

Many of the features of gifting in this way are similar to leaving legacies to charity in a will. However, there are several important differences for the beneficiary. Lifetime gifts are preferable because once made they are legally irrevocable, whereas a gift made in a will can be altered right up until the point of death. The certainty provided by the legal titling enables charities to engage in long-term planning. The donor, as well as benefiting from income and inheritance tax relief, sees the benefit of the gift, receives recognition and enjoys a relationship with the recipient charity.

Theoretically it is possible to establish a CRT-like vehicle in the UK, but there are no tax advantages to doing so. Under UK law a gift of assets can count as a charitable donation for tax purposes only if a donor does not retain any interest in, or control over, the gift, and does not derive any financial benefit from the gift.

The report of the government's task force on voluntary giving to higher education in 2004 explained: "These principles are sound in assessing the true charitable value of a gift. For instance, where a donor gives a gift of £10,000 and receives benefits-in-kind of £1,000 from the charity, the gift should be treated as £9,000 for tax relief purposes. Similarly, where a donor retains an interest in the gift of an asset, the market value of this interest should be deducted before calculating the true charitable value of the gift for tax relief purposes. However, instead of performing these calculations, the whole gift is treated as ineligible for tax relief."[29]

The Institute for Philanthropy has also explained that changing the capital gains tax treatment of CRTs in particular would not, over an extended period of time result in "a significant loss of revenue, since it is merely bringing forward the capital gains tax relief [on legacy gifts] rather than introducing a new relief."[30]

Despite being raised with Government there has been no apparent movement towards introducing lifetime legacies.[31]

29 "Increasing Voluntary Giving to Higher Education: Task Force Report to Government", Task Force on Voluntary Giving to Higher Education, 2004

30 *Lifetime Legacies*, Institute for Philanthropy Briefing Paper, 2004

31 See, for example, above referenced Institute for Philanthropy paper, available at: www.instituteforphilanthropy.org.uk/CobraManagedFiles/Briefing_Paper_on_Lifetime_Legacies_1.pdf

This appears to be partly due to concerns about tax abuse. Lord McKenzie of Luton stated as part of the Common's response during the House of Lords debate on CRTs: "There is evidence that existing reliefs for charitable giving are abused and we would want to be very careful that any new reliefs would not be abused."[32] It is also partly due to a lack of evidence that they would add significant benefit beyond the existing tax reliefs. Again, Lord McKenzie said: "With so much more to achieve through the current reliefs, we need to consider very carefully whether any new relief would bring about additional giving and whether that additional giving would outweigh the costs involved."[33]

There are claims that there is no demand for structures of this kind in the UK. Lord MacKenzie argued: "Charitable remainder trusts are complex vehicles for most donors and charities to understand, and it is not clear that there is a market for such a method of giving in the UK."[34] However, many people are not aware that such vehicles exist.

Maximising wealth through CRTs

Those of our interviewees who were aware of CRTs mostly thought that the issue had not been given sufficient consideration. Those with US experience tended to think that there were substantial benefits associated with being able to make lifetime gifts. Former private equity professional and chairman of The Sutton Trust, Sir Peter Lampl (68) said: "There's loads of people sitting on outrageously over-valued assets in their houses and a lot of them don't have anywhere else to leave it, and hey, you know, if you could give your house to a university or another charity, do some good, and perhaps get some recognition then surely that's appealing?"

The introduction of lifetime legacies in the UK could have as big an effect on the mass affluent as has been seen in the US.[35] Although it is difficult to give exact figures, one estimate puts the potential income for the charity sector that could be generated by these vehicles in the long term at £10 billion.[36] Theresa Lloyd said: "It is those incentives which have the potential to underpin giving by what you might call the mass affluent; the kind of people who do give to charity. An increasing number of them either don't have children, or don't want to leave them too much. They have done relatively well out of property, perhaps have savings and a good pension, but they are not going to give a big capital sum because they need or may need the income, and because they feel uncertain about the demands of their old age and so on. In the US it also applies to gifts in kind such as property. A classic experience is the gift of for example a second home, received by the beneficiary institution on the second death in a marriage or partnership….. if you look for example at Harvard, their endowment went up enormously in the years after charitable remainder trusts had come in – I believe such split interest mechanisms account for over 40 per cent of their endowment."

3.2.5 Gifting assets

In the US the value of any asset gifted to charity can be deducted from income, up to a maximum of 50 per cent of adjusted gross income (AGI). Any unused deduction can be carried over to the next tax year, for up to a maximum of five years. This applies, with a few stated exceptions, to anything from clothes donated to a thrift store to major works of art. Due to the high value of works of art and the potential implications of offering tax relief on gifts of them, there are specific rules concerning these donations.

Gifts of art are eligible for tax relief in the US if a donor owns 100 per cent of an artwork and donates their entire interest. Then the gift is made free of CGT

32 Lord McKenzie of Luton's contribution to the House of Lords debate on CRTs. See www.theyworkforyou.com/lords/?id=2006-02-07c.589.3

33 Ibid

34 Ibid

35 Lifetime Legacies, Institute for Philanthropy Briefing Paper, 2004

36 See Lord Lyell of Markyate's contribution to the House of Lords debate on CRTs, 7 February 2006. www.theyworkforyou.com/lords/?id=2006-02-07c.589.3

Private Equity Pay Structures – limited partners hold unlisted shares/company stakes

Private equity funds are typically structured as limited partnerships. The general partner (GP) of the fund will normally be the promoter of the fund or an entity related to it. The GP will normally receive an annual *general partner's share*, used to pay for fund management activities. For a smaller fund (£5m-£30m) the GP share is in the 2 per cent to 2.5 per cent range a year. For larger funds (above £250m) the fee may be only 1 per cent to 1.25 per cent. The manager will also receive fees from portfolio companies once investments are made (usually between 0.5 per cent and 1 per cent). These may go back into the fund to offset the annual management fee and thereby increase the carried interest payable.[37]

The investors in a private equity fund are the limited partners who hold stakes in private companies in which the fund has invested – making them interesting targets should tax breaks for gifts of unlisted shares be introduced. When portfolio companies are divested, the fund will distribute the proceeds to the limited partners until the value of their capital contributions has been returned to them in addition to an amount representing a return on their investment (the "preferred return"). This is usually calculated as 6 to 8 per cent of the fund's invested capital a year. The general partner is entitled to 20 per cent of the overall profits remaining once the limited partners have received their capital and preferred interest – this is the *carried interest*.

and the donor can take a deduction of up to 50 per cent of adjusted gross income (AGI) for the year. Any unused deduction can be carried over to the next tax year, for a maximum of five years.

Donors used to be able to make gifts of fractional interests in works of art, but this was changed because of concerns about tax avoidance – owners would make a fractional gift each year and offset the value of that gift against their income each time. The Pension Protection Act (2006) changed the tax treatment so that a fractional interest in an artwork can only be made if the donor has 100 per cent ownership of the artwork prior to the gift.[38] There is also no tax relief on subsequent fractional donations and if the artwork is not contributed to the charity within ten years of the initial gift or at the donor's earlier death, the donor must recapture the full charitable income and gift tax deductions plus interest and pay an additional 10 per cent tax on this amount.

Gifts of non-monetary assets in Britain are made free of CGT. Gifts of so-called qualifying investments of listed shares and land or buildings are also eligible for income tax relief (see 3.2.3 on share giving). This does not include assets such as unquoted shares or tangible personal property. There is little evidence of pent up demand for tax relief on gifts of unquoted shares but the task force on voluntary giving to higher education did note in its report to Government that: "an adviser to wealthy individuals has commented that in seeking to maintain a balanced portfolio of shares, individuals may want to give unquoted shares but are reluctant to do so without tax relief."[39]

The debate on gifts of assets in the UK has focused on works of art. The Goodison Review in 2004 recommended that: "Donors of pre-eminent objects to Schedule 3 bodies and registered museums should be able to offset the gross value of the gift against income before liability to income tax, eliminating any liability to inheritance tax and capital gains tax on disposal of the objects, and should be able to allocate the value in instalments against gross income over successive tax years".[40] The task force on

37 See, for instance, Kensington Capital Partners website, www.kcpl.ca/private_equity/structure

38 See www.dol.gov/ebsa/pdf/ppa2006.pdf

39 "Increasing Voluntary Giving to Higher Education: Task Force Report to Government", Task Force on Voluntary Giving to Higher Education, 2004

40 Goodison N, *Goodison Review:, Securing the Best for Museums: Private Giving and Government Support*, HM Treasury, January 2004

For the past seven years **Vernon Ellis** has been international chairman at Accenture, the management consultancy and outsourcing company. Now, his role is part time and he holds multiple board positions with philanthropic organisations including chairman of English National Opera (ENO) and the Classical Opera Company and trustee of the Royal College of Music. In the past three years he has also been chairman of Mission, Models and Money (MMM), a research and advocacy group for the sustainability of the arts.

Vernon has a passion for music, so when ENO launched an appeal for the restoration of the Coliseum in 2001, shortly after he had become a director there, he naturally wanted to participate. They needed to raise £18 million from individuals and trusts to complement £23 million of public money; the bulk of this had to be raised *before* the public funders would commit to the project. This coincided with the flotation of Accenture, for which he received a significant allocation of shares. The quest for private funders was going well but a significant gap needed filling if the project was to start on time. Vernon decided to fill it by committing £5 million. Looking back, he sees this as an instinctive move to help to secure the project. With hindsight, he says half-jokingly, it seems now a very "rash decision". But at the same time, there is pride in really having made a difference to a vital project. And also the whole experience did galvanise him to "try to be more organised".

He set up his own foundation, which was "more convenient and tax efficient and enables easy transfers of cash or shares to it every year whilst eliminating income taxes". That may sound rather clinical and tax driven, but Vernon's approach to his philanthropic activity is to maximise his resources and use them to the best advantage so that he can have as wide an impact as possible and enjoy the results of his philanthropy to the full.

He is savvy on the tax advantages that he gains from approaching his philanthropy in a structured manner and he was quick off the mark on this. When Accenture went public, the income of all employees was going to be half what it had been when it was a partnership organisation. If he could establish the charitable trust and make substantial gifts to it before the end of the tax year, he could significantly reduce, or even eliminate, the tax on that last year of significant partnership earnings. He then structured later gifts over a number of years so he could match his ("much declining") income and meanwhile help the restoration funding through interest free loans. The whole approach is to maximize the tax efficiency of giving so that there is more money to give longer term.

Taking a longer term view, he is clear that he does not wish to leave too much money to his children when he dies, saying that it "can be damaging". His children agree with this. But he has involved them and other family members as trustees of his foundation and invites them to suggest donations and to set a direction for the foundation after he dies. (The estate, after specific donations, will pass to the foundation).

Although he does fund some medical and some development projects on an ad hoc basis, his passion is for music. He is personally involved with many of the organisations he supports, offering his time and his management skills to them. "You are drawn to what you know and people you know and then you see the long term effects of your input first hand which is fun and rewarding."

And that connection is strengthened not only by his involvement in musical organizations, but also by his opening up of his London home to a whole host of musical activities – rehearsals, auditions, master classes and concerts – both fundraising and in preparation for major public concerts. He employs an assistant to look after these activities and she also acts as the admin-

istrator for a young string quartet that is establishing a new festival in Folkestone.

Vernon's philanthropic work is clearly the enjoyable part of his life and he couldn't imagine it any other way now. He says of others: "When people make a lot of money, some tend to take early retirement, play golf, hang around on yachts for a while, then later decide they have got to do something else with their life, so they drift back into work. In Vernon's case he feels that the philanthropic side of his life has provided part of a backbone of purpose. This has been complemented by one of his remaining strands of work at Accenture – to be chairman of the global corporate citizenship council that, inter alia, co-ordinates all its charitable giving, volunteering and pro bono activities. This too has given him pleasure as he has helped establish a much more productive series of programmes.

When asked whether he is comfortable with the public side of philanthropy he sighs: "I am ambivalent. I actually don't like it and have always refused to talk about specifics in the past, particularly when it comes to money. I suppose this is partly a defensive reaction to public attitudes which are themselves ambivalent, particularly in the press. On the other hand, I do recognize you need role models in philanthropy to legitimise it".

Vernon is very strategic about his philanthropy. He says: **"Setting up the foundation allows me to control how I distribute the money over time and to be more planned in my approach"**. He is focused on the sustainability of charitable organisations, particularly in the arts: **"The least satisfying thing is to keep contributing to a pot that keeps people afloat each year because you don't see much reward. It is more satisfying to invest in something in a way that contributes to it becoming long term sustainable"**. This is the approach he took with the Classical Opera Company to which he committed £100,000 a year for five years in order to help them become sustainable. At the end of that period they were going to have to be on their own with a much wider group of committed supporters and this is indeed what has happened.

He has also been enlightened in his use of funds, recognising that "different types of investment beyond grant making are crucial to the sustainability of many music organisations and across the whole philanthropic area." And he has personally led some experimental approaches at one performing arts company to improve marketing spend and impact through a mixture of giving, interest free loans and underwriting.

Another example of moving beyond straight giving is Vernon's participation in five different "violin trusts" (actually three violins, a viola and a cello). Here, a syndicate of donors support a musician to buy an upgraded instrument in order to develop his or her musical career and "in 10 to 30 years time when the instrument is sold, the syndicate will get their share of its value at that time, which may or may not be at a gain. This is long term "patient capital" but the return in the interim is to see, often at first hand, the career of a first class musician prosper.

Widening the concept of investment still further, **Vernon has invested in Bridges Community Ventures (see case study on page [ ]), a social venture fund. He did this through his foundation as this combines an ability to build tax free returns for the foundation with the satisfaction of seeing a social impact in deprived areas.**

The share options that Vernon received when Accenture went public form the financial core of his philanthropic money. He is candid about their value: "If I had held on to more of my shares I would be wealthier now as they are worth a lot more that when I sold them. There are lots of people in the City who are many times wealthier than me, but I needed and wanted to give some of my money away as I went along so this is how I do it."

He started gifting shares because he knew of someone

else who did it and **"if you own stock which you can give away over time it is by far the easiest and most tax efficient way to give"**. His desire to maximise resources was an incentive at the start of his philanthropic journey: **"First I did Give As You Earn, an excellent scheme, particularly when the Chancellor was giving 10 per cent on top – too many people seem unaware of it. Then I went straight to a foundation".**

When asked how much he thinks people should give. He says: "What is an appropriate amount? You can't generalise. People have different needs and requirements. But my impression is that there are a lot of people now with a huge capacity to give and that if they knew how to they would find it very fulfilling."

Through his active involvement in the sector, Vernon is personally aware of how recipients of his funds or loans are performing and is focused, as displayed by his financing strategies, on increasing financial sustainability of philanthropic organisations. His involvement, from the start, in Mission, Models, Money was very much focused on increasing the resilience of arts and cultural organisations and he continues to be involved in a successor project around the development of new approaches to financing this sector.

increasing voluntary giving to higher education endorsed this recommendation.

Arts organisations are keen to encourage donations from private owners to public galleries and a US-style tax incentive on gifts of art is one suggestion. The principal objection to a tax incentive of this sort is that it would be exploited as a tax loophole. In the US, this concern led to the amendment in the Pension Protection Act (2006) mentioned above, which removed the ability to gift a fractional interest in a work of art.[41]

Maximising wealth through gifting assets

The ability to gift a diverse range of assets in a tax-efficient way could help to develop a more sophisticated philanthropic culture in the UK, since it encourages individuals to consider all of their possessions in different ways and it further opens up the pool of wealth available for philanthropy. It could also appeal to those in financial services who are more likely to have significant holdings in non-standard assets, such as private equity professionals. As Stephen Dawson, chair of venture philanthropy group the Impetus Trust, said: "The tax benefit for giving shares is, as I understand it, even better than Gift Aid. So, if you could give that to a wider range of assets, and I'm thinking of private equity assets which don't currently qualify, then potentially that might encourage people in the financial services industry to give more. I think the issue is valuation but there are valuation procedures in private equity which are reasonably well established."

3.3 Maximising Wealth through Method

Maximising means and employing appropriate methods for distributing philanthropic funds are interrelated. At the start of the journey, a higher rate taxpayer is required to process his own Gift Aid reclaim on a cash gift, but if the individual later establishes a charitable account or a trust, then the administration is reduced and much of the processing of tax incentives is handled by the account provider or trust administrator. We assess these structures and their strength as giving methods in Section 4. It is important to take advantage of the fiscal incentives at all stages. Positive early experience will help to embed philanthropy in individuals' lives at the beginning of their career, encouraging

41 See Strom S, "The Man Museums Love to Hate", *The New York Times* 10 December 2006

them to increase their commitment when means allow. These are the building blocks for a long-term, sustainable culture of giving.

Vernon Ellis, international chairman at Accenture (58) has meticulously chosen his methods in order to maximise his resources. He said: "First, I did Give As You Earn, an excellent scheme, particularly when the Chancellor was giving 10 per cent on top – too many people seem unaware of it. Then I went straight to a foundation." He confirms that setting up a foundation is "more convenient and tax efficient and enables easy transfers of cash or shares to it every year while eliminating income taxes." As his philanthropy has evolved, he has also added skills and expertise to the mix, offering his business expertise to a research and advocacy group for the sustainability of the arts called Mission, Models and Money (MMM).

Just as social capital can be used effectively for maximising means in the fund raising process, so it can be harnessed for deployment of funds and skills to other charitable organisations. We assess these hands-on methods for philanthropy in the next section.

4

Methods

Just as there is a variety of means available for philanthropy, such as cash, shares, property, time and skills, so there are different methods of putting them to use. These can blend several means or make use of each of them on its own. Such methods can be direct or via intermediaries and may involve traditional forms of giving or an innovation, such as venture philanthropy or social investment. Appropriate methods vary according to the stage in life and career that the giver has reached. Means and motivations inevitably change over time, as do attitudes to risk. Individuals may wish to experiment with different styles of giving depending on their personal and professional circumstances.

Sir Tom Hunter woke up one morning to find himself an "unemployed" multimillionaire. This positive but dramatic change in his circumstances led him to set up the Hunter Family Foundation (23). For Nicola Horlick (25) personal tragedy led her to channel much of her time, skills and money to organisations acting for children and cancer. Both Sir Tom and Nicola were already engaged in philanthropy to some extent before their life changing event and the different methods they employed afterwards – a charitable trust in one case, her cheque book, contacts, time and skills in the other – were the right ones for them.

For most people philanthropy begins with the simple method of getting involved with charities locally or at the workplace. With the benefit of experience and greater means, they become more focused, with a clearer strategy and defined personal philanthropic goals. This requires knowledge of the voluntary sector to assess which charitable ventures are more likely to deliver the desired results. Professionals from the financial services and business, who are focused on impact and outcomes in their day jobs, will want this information. Some individuals may take on this challenge themselves by joining the board of an organisation, getting to know it thoroughly and helping steer its course. In this way they can maximise any personal financial support. Others may want access to "market intelligence", provided through greater disclosure by charities themselves, through third-party internet-based information or specialist providers such as New Philanthropy Capital (NPC) (74).

The degree of personal involvement in philanthropy – the donation of time and skills in addition to money – will vary according to the degree of personal motivation for a particular cause, the opportunities for engagement and the practical limitations on time. When Sir Peter Lampl (68) embarked on a personal mission to widen access to higher education in Britain, he set up The Sutton Trust in order to test new approaches and methodologies. His hands-on approach contrasts with those of others who experiment with their philanthropy by funding intermediaries such as Impetus Trust or Venturesome (84), or placing their philanthropic money with providers such as Prism (70).

Philanthropists today have more opportunities for investing in different models than a generation ago: venture philanthropy brings to charities a model based on venture capital investment; a

variety of funding approaches beyond simple grant-making, such as underwriting, mezzanine funding and long-term "patient" capital provide new options for giving. Social enterprises and community development venture capital widen the spectrum for philanthropy. These new models use tools and a language that speak clearly to those whose lives are spent in financial services. They do not replace traditional ways of giving grants to charities, the bedrock of philanthropy, but open up a spectrum of financing options for the charitable sector that could attract new types of experimental investors and untapped pools of capital.

4.1 Alternative Methods for Philanthropy

Methods depend on means and vice versa. Once individuals are able to move beyond ad hoc giving, the most empowering and flexible method of deploying financial capital with the least burden is through a specialist charitable account such as the Charities Aid Foundation provides. The natural step up from this is to establish a charitable trust which can house an endowment. A private trust involves the commitment of both time and money and should be considered only by existing and would-be philanthropists with the appropriate resources. A managed trust is administered by a third party, which reduces the time commitment. There are also a growing number of vehicles emerging for pooling financial and social capital. Some of these are vehicles for financial capital and others are intermediaries that can appropriately deploy social capital; some philanthropic circles or networks combine the two. The role of financial advisers and the provision of information on the charitable sector are increasingly important for guiding philanthropists to the right methods and the right recipients of their financial and social capital.

4.1.1 Charitable Accounts

Charitable accounts are vehicles that act like bank accounts for charitable giving. Individuals make deposits either ad hoc or through a regular direct debit/standing order or payroll giving, and then use the funds in the account to make donations to chosen charities. Because the account provider is itself a charity, deposits into the account are automatically eligible for tax reliefs. Most charitable accounts offer a chequebook and a debit card, and enable users to make secure online donations direct from the account.

A number of providers offer charitable accounts, the best known being the Charities Aid Foundation (CAF) charity account.[1] There is usually a charge to cover the cost of administering the account – for example in the case of the CAF charity account the charge is 4 per cent of the gross value of the donation. For this reason, if a donor wants to give to only one or two charities, then payroll giving remains the most efficient mechanism as it avoids the administration cost. The benefit of the charitable account is the flexibility and control over the timing and destination of funds, but those benefits need to outweigh the administration cost.

A donation of £100 to a charitable account would automatically receive the Gift Aid of £28.21. Deducting the £5.13 administration charge (assuming 4 per cent), this would leave the donor with £123.08 to give to chosen charities. At the end of the tax year higher-rate taxpayers can reclaim the additional £43.92 of tax they have paid. The account provider sends regular statements detailing donations made from the account, making it simpler to reclaim personal tax relief at the end of the year. Although charities may have some concerns that they might suffer a loss of income by not being able to reclaim basic rate tax on donations from charitable accounts, this should be outweighed by the increased amount of regular tax-effective giving these accounts promote.

1 See "Where to go from here" appendix for details of other charitable account providers.

It is also possible to fund charitable accounts with donations of shares. This may involve the account provider selling them on the donor's behalf or buying them from the donor at the bid price, selling them at full market value and adding the proceeds to the account. This removes the administrative burden and complexities associated with share giving (see analysis of this on page 51). Shares sold in this way are exempt from capital gains tax, and usually qualify for an income tax deduction at the donor's highest rate of tax. The account provider provides the necessary documentation for individuals to facilitate their personal claim for share relief.

If a company has a payroll giving scheme, this is a way for individuals to transfer money to their charitable account on a regular basis. Our interviewees who had experience of company charitable account schemes were convinced that they made it easier for employees to give. Alexander Hoare, managing partner of C. Hoare & Co said: "Our foundation double-matches any employee donation through Give As You Earn, which has the effect that a third of our staff have got accounts at CAF. And because they are doing it themselves, they are jolly conscious of what CAF can do."

As well as empowering individuals, a charitable account reduces the administrative hassle of processing the tax reliefs on giving. This makes it simple to give regularly in a tax-efficient way. Stanley Fink, deputy chairman of Man Group (31) said: "I use a CAF account myself as a handy, free way to do my giving and I can claim the higher rate tax and everything. Maybe I have to give them one declaration a year, or perhaps two every two years… it takes the administration out of it."

Anonymity is a huge benefit, especially for significant donors who worry about becoming a visible target for fundraisers. Donations by charity cheque or online payment can be left nameless rather than having to make a Gift Aid declaration as on a cash payment, since the tax relief has already been claimed.

CAF is the market leader in the UK, yet it has only 82,000 individual accounts.[2] Take-up is low despite the positive feedback we heard from account holders. Our informal poll of senior Citi employees showed that only 16 per cent of those polled held a charitable account but, of those who did, more than two-thirds used the account more than five times a year.

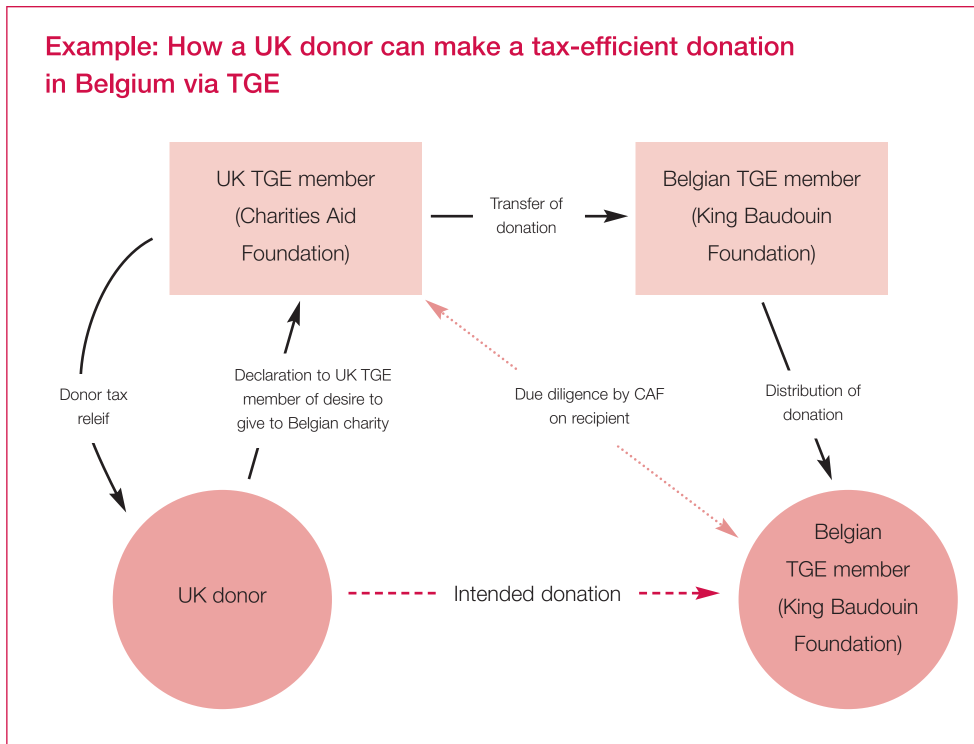
Greater use of charitable accounts could play a significant role in building up a culture of regular, controlled giving in a tax-efficient way that makes maximum use of an individual's resources. The combination of charitable accounts with double-matched giving for employees at C. Hoare & Co private bank is a prime example of what can be done.

Charitable Accounts and Cross-Border Giving

In a world dominated by globalisation, a charitable account also helps to simplify the process of cross-border giving. London's position as a global financial centre has made it a magnet for FSI professionals from all over the globe and a foreign taxpayer working in London may well wish to give in Britain or a UK taxpayer wish to give to organisations overseas.

Most countries' tax breaks on charitable giving are restricted to donations made to organisations based within that country. However, tax-effective cross-border has been made possible in Europe by Transnational Giving Europe (TGE), a network of partnerships between organisations such as the Charities Aid Foundation in Britain, the King Baudouin Foundation in Belgium, the Fondation de France, and in America through similar arrangements. By giving a donation to CAF, for instance through an individual CAF charity account, a donor can receive immediate tax relief in the UK. CAF can then forward the

2 www.cafonline.org/pdf/CAF CharityAccountBrochure.pdf



donation to the recipient in another country (in Europe's case via another TGE member, in the case of the US, direct to the charity), provided it is satisfied that this organisation is serving a suitable charitable purpose.

For donors who are dual UK-US taxpayers, it is also possible to receive double relief by using the CAF American donor fund. This is a donor advised fund (DAF) into which an individual can make Gift-Aid donations in the UK; the fund will distribute the proceeds to nominated organisations in America. As long as the recipient organisation satisfies both US and UK criteria for tax relief on donations, the donor is issued with a US tax receipt that he can use to make a deduction against his US tax bill.

4.1.2 Charitable Trusts (also called Foundations)

These are the natural step-up from a charitable account in terms of empowerment and control of funds as they can operate with an endowment. They allow the charitable capital to grow in a tax-efficient way while it is distributed at a rate that suits the trustees. Individuals can set up a private trust, which allows them to mange the endowment themselves or choose a manager to do so. This maximises freedom over investment decisions but requires a certain level of administration associated with running of the trust. Or they can set up a managed trust by giving £10,000 to an organisation that provides this service, such as the Charities Aid Foundation. With a managed trust, there is virtually nothing to think about, other than which charities to support, as there are no reporting requirements and the provider takes care of all other administration for an annual fee. A trust is an efficient way of using bonus income or other sources of one-off gifts for philanthropy because assets can be transferred to the account and parked or used.

A trust is a legal organisation regulated by the Charity Commission (Office of the Scottish Charity Regulator, in Scotland). For the purposes of receiving donations, a charitable trust is treated like a charity so the donor can benefit from the tax incentives associated with Gift Aid, payroll giving or share giving. In addition, investment income from the trust's endowment

Michael Hintze is the founder and chief executive officer of CQS (Convertible and Quantitative Strategies), one of the largest London-based European alternative asset managers. He formed The Hintze Family Charitable Foundation in 2004.

Michael set up his family foundation so that he could take full responsibility for his philanthropy and structure it as he wished. He said: "The foundation allows us more control over the way we disperse our funds and I want to understand where they go."

As a successful hedge fund manager he is also keen to make his money work as hard as possible and to maximise returns: "Structurally we wanted to have a situation where the funds could sit for a period of time and make money, and then be dispersed at an appropriate time."

He employs somebody to run the foundation full time saying: **"It is a privilege to be able to give, to have a foundation, so you need to do it seriously."**

He recognised that the foundation structure was the best for him when he reached a stage in his wealth creation and career that allowed him to take his philanthropy to another level: "If a person is giving away £10 or £20 million and doing it with a foundation structure, it is important to have someone to manage it properly and if that isn't going to be the giver, he needs to find someone else. If you are giving thousands rather than millions, then you should probably go to the Charities Aid Foundation, get one of their accounts and write the cheques. That works well."

Michael has four children and is keen that ultimately they perpetuate this work: "The aim is that this allows the whole family to get involved eventually and to move it on to the next level when they are ready." The impact is already far reaching. The foundation has supported multiple educational, health and religious programmes and the arts. He has supported the restoration of Michelangelo's frescoes in the Pauline Chapel of the Vatican and two galleries at the Victoria and Albert Museum in London. He has also supported his alma mater, the University of Sydney in Australia. Initially keen to avoid publicity, Michael has seen how individual acts of philanthropy can provide powerful inspiration to others. As a result, he is now comfortable declaring his donations publicly in an attempt to motivate others to do the same.

His financial competence has naturally influenced his philanthropy and he uses different forms of financing for his giving where appropriate. For example, he recently gave a considerable sum to Trinity Hospice, and also underwrote a shortfall in order to allow them to start a major capital project. Richard Briance, chairman of Trinity Hospice, explains that despite being the sole provider of palliative care to much of London, it has not developed its funding base much beyond its core local supporters. It was recently faced with the imperative to rebuild its facilities and the board planned a £10 million new build, to be financed in part by a £6 million capital appeal.

Richard said: "Michael was the first person I approached for support. He not only anchored the appeal with a £500,000 donation but also agreed to chair it. He subsequently organised a highly successful dinner hosted by the Duchess of Cornwall at Clarence House. Along the way, he made a critical contribution by using an underwriting offer to kickstart the project. The Trinity board was only prepared to start the building when a minimum of £4 million had been secured. **Michael underwrote this £4 million, allowing us to engage the contractors and start the work, thereby avoiding the escalating costs of delay. This underwriting has now been discharged by our successful campaign."**

Like a true money manager, Michael said: "The beauty of underwriting is that you can re-use the money." He views the philanthropic sector as similar to other businesses and financial markets. "To

make a profit or a return is not unreasonable and there is no reason for a charity to underprice its services."

Asked if he thinks more people would donate shares, as he has done, if they understood the tax advantages, he replies that it is more fundamental than that – the whole culture of giving in the UK needs to be changed and companies have an important role to play in this cultural change: **"I think company initiatives like payroll giving and matching are very effective."**

For him, though, the culture of giving is already engrained. His maxim is: "Give, get or get off" –meaning that if an individual decides to get engaged in philanthropy then he should do it properly either by giving money or bringing it in through networking. And if he does not do that, then he should "get off", not be involved. It is down to the individual, and if Michael had his way, everyone who had the means would give money and get involved.

is not taxed and there is no corporation tax or inheritance tax. If a private trust reaches a size where it requires its own office, it will not pay business rates. Only if the trust is very large (and supplying a significant amount of products or services that are subject to VAT – which is unlikely if it is simply a grant-making body) is it required to register for VAT.

A private trust must satisfy minimum governance requirements, have a clear trust deed setting out its charitable purposes and file an annual report and accounts. Despite the costs and reporting burdens of setting up a private trust, it can offer a systematic framework for philanthropy, often involving family or friends as trustees. Larger trusts may need to develop a professional staff team for evaluating which charities to support and implementing a grant-making programme. "Setting up the foundation was expensive," says charity CEO and former investment banker Tom Hughes-Hallett (68), "but that's my fault, because we could easily have gone through CAF and for free, but I wanted it to be more personal than that."

Trusts are suitable for donors who want a tax-efficient framework within which they can conduct planned, systematic giving. Any individual setting up a private trust must consider whether the benefits offered by the structure outweigh the costs associated with getting legal advice and the approval of the Charity Commission. Cathy Pharoah, director of Third Sector Prospect, summed it up perfectly by saying: "It's obviously an important solution for people who want to do their own thing....but for smaller trust donations, I would guess for anything below £100,000, you should seriously think about vehicles such as a CAF account, or a community foundation or some pre-existing trust or foundation that could use the money to support good programmes already set up."

Nicola Horlick is clear that the trust structure is not for her at present: "There is no point me setting up foundations when there are other people who are doing it perfectly well. I trust those people, so I am very happy just to give that money to ARK for them to spend on Aids projects in South Africa." However, for a philanthropist who wants to be hands-on and run an organisation, a trust is the appropriate method and the ability to control it outweighs the initial set-up and ongoing administration costs. Sir Peter Lampl needed the structure of The Sutton Trust (68) in order to develop his models for better access to higher education; Chris and Jamie Hohn needed the fully functioning Children's Investment Fund Foundation (40) in order to work actively with local partners in its HIV-Aids work and other projects.

4.1.3 Vehicles for Pooling Resources

Donor Advised Funds

These are pooled vehicles for charitable giving established by a public charity or other sponsor. Donors give cash or assets to the fund and then recommend who is to

Sir Peter Lampl is Chairman of The Sutton Trust. He was formerly a private equity partner and management consultant, predominantly working in the US.

It is difficult to identify one single factor that prompted Sir Peter to set up the Sutton Trust in 1997 – two decades living and working in the US certainly played its part as did his own experience of school and university in Britain. However, he has a very specific passion, one that led Gordon Brown to describe the trust as "a national institution of which we are incredibly proud" at its recent tenth anniversary party.

A period working for International Paper in America introduced him to giving and connected him with a cause. The company had a payroll giving scheme and all the donations went to the chosen corporate charity. In Sir Peter's words: **"It was pretty clear that you gave your 2 per cent because if you didn't you would stand out and that might affect your career prospects."**

Then there was financial advice. Sir Peter spent much of his professional career in New York, where he was paying around 50 per cent tax. His financial adviser said to him: "Wouldn't you rather give that money to something you believe in, like your old university or some other charity?" This was part of his adviser's core advice and it instigated his charitable giving.

"There is a sense in the US that you should be doing something more useful – particularly in New York which is pretty philanthropic. You don't find many people there who have made a lot of money who aren't doing anything," says Sir Peter. He is a big advocate of American-style tax incentives for giving wherever tax is deducted straight from income.

When he returned to Britain, Sir Peter became involved with a campaign for banning handguns after the Dunblane massacre in March 1996. It was an issue that was very close to his heart after his years in America.

The success of this campaign triggered a passion and a thirst for more active philanthropy. It was the right time, "Frankly I lost the purpose of making more money and I was looking for what to do next." And the cause was obvious: "When I came back to this country I was shocked at what had happened while I had been away to kids not just from poor backgrounds, but from ordinary backgrounds too. In Britain, if you are born poor, your education reflects that fact and you are likely to remain poor."

So he set up summer schools bringing non-privileged children into Oxford University, his alma mater, for a week. This was a hugely successful, practical experience and it evolved into his system-changing approach through The Sutton Trust, supporting projects that provide educational opportunities for young people from non-privileged backgrounds. "We want every child to have the opportunity to fulfil their potential," says Sir Peter.

He has chosen to dedicate himself wholly to this cause. He still funds practical projects, but the Sutton Trust also conducts research at multiple levels and does significant policy work. He did not start with this aim: **"I had no intention of doing this. It snowballed after the summer school. I was still in private equity then and it was a new area of focus. Now…it is what I do full time."**

The research and policy work is critical to the Trust's ability to influence change. "We have funded over 30 research projects now so we have done a huge body of research and I think that is terribly important," says Sir Peter.

In many ways the Sutton Trust is a catalyst. Not only has Sir Peter recently attracted his peers and major foundations as donors, but now the Government also funds summer schools at most universities. At the recent anniversary party, Gordon Brown said, "He is genuinely transforming lives."

Sir Peter says he was not keen on the publicity at first, but he recognised it was unavoidable the day he woke

up and found himself on the front page of *The Times*. Unnerved, he hired a public relations consultant and soon realised that publicity could help to achieve his aims and put pressure on the Government.

Sir Peter chose to establish The Sutton Trust as a stand-alone trust. He had a specific focus in terms of mission and setting up a charitable trust provided the infrastructure to allow him to be strategic within his focus area. **He wanted to be hands-on and to operate a living, breathing organisation. In Sir Peter's words, "It is neither a think tank nor a straightforward charity, it is a do tank."**

In 2005 the Sutton Trust started to raise external funds and the trust's structure makes it possible to work with donors in two ways. Individuals may join the strategic philanthropy fund, which supports all the trust's new projects, or donors (often trusts or foundations) may support specific initiatives, for example the trust has launched a pathways-to-law programme in partnership with the College of Law.

Sir Peter admits that "taking money is hard work" – there is a responsibility to report to and involve donors. But it was not difficult to attract funds to the trust's unique approach to educational philanthropy. This is in part due to its widely acknowledged impact, and also to his position at the helm.

The Sutton Trust commissioned management consultants the Boston Consulting Group to evaluate its effectiveness. The group concluded that, on average, its projects result in a present value return of £15 to every £1 invested. Sir Peter comments: "That's a level of return that most businessmen can only dream of. And that return does not include the wider benefits to society such as improved health, reduced crime and increased participation in the community, which are considerable."

receive grants, how much and when. Donor Advised Funds (DAFs) provide a halfway house between charitable accounts and charitable trusts. They are similar to charitable accounts and managed trusts in that all that is required of donors is a contribution of money or assets and input on recipients, and the whole process can be conducted anonymously if desired. Like managed trusts, DAFs can be endowed so that they earn investment income in a tax-efficient manner, making them appropriate vehicles for long-term, planned giving. They are particularly effective for those who want to give in a more structured, strategic way, but do not have the resources to justify setting up a trust.

DAFs originated in America where they were principally provided by community foundations, charities focused on supporting projects that engage local people and benefit a local area. They are now also offered by organisations with national scope and by commercial financial institutions, such as Fidelity. They can be focused on a particular theme or on religious giving. Between 1995 and 2006, assets in DAFs in the US rose from $2.4 billion to $19.2 billion, and roughly one in five high net worth donors used them as part of their giving.[3] The minimum contribution to a DAF is normally around $10,000. Donations are treated like any other charitable contribution for tax purposes and income tax relief not used in a given year can be carried forward for up to five years. In contrast to a private foundation, DAFs are not subject to excise tax on investments, which in the US is around 2 per cent. There are no annual reporting requirements and no minimum annual payout rate.

DAFs are available in Britain but they have primarily been operated through community foundations, creating the impression that DAFs cater only for those who give locally. They do not have the same sort of branding as stand-alone prod-

3 *Chronicle of Philanthropy*, 4 May 2006 and *US Trust Survey of Affluent Americans* XXVI, April 2007

Prism is a charity that assists donors with the administration of their giving, modelled on American donor advised funds. It was set up by Anna Josse and Gideon Lyons.

Anna and Gideon are directors of Regent Capital plc, which creates and offers investments to high net worth individuals. During the early stages of setting up their business, they received many enquiries from clients about how they should conduct their philanthropic giving. Anna had a professional background in the charitable sector and felt there was a real opportunity to address this demand.

They spent a year and a half researching the charitable market and realised that there was a gap in Britain for a US-style donor advised fund that would respond to the needs of its donors. Building on Regent Capital's contact base they set up Prism as a restricted fund that takes donations and provides a personalised service to the donors. They had to have been enthusiastic as it took almost a year to get Prism through the Charity Commission.

Anna believes that if the individual is not at the right time and right stage in his or her life, then setting up a trust can be "time intensive, a hassle and a bit of a liability". With its administrative service, making donations to Prism is much more straightforward way for an individual to go about philanthropy until he or she is ready to be more hands on about it.

Prism is a charity that helps potential donors and charities with all the tax implications of giving. It operates a Gift Fund to receive donations of cash, shares or property, which can then be transferred to their own sub-fund. Technically funds are donated to the Gift Fund on a restricted fund basis and Prism ensures that clients make use of maximum tax efficiencies. Prism takes direction from clients – both individuals and family foundations giving substantial amounts to the charitable sector – on how they would like their donations to be used and administers the donations on their behalf.

Donations to the Prism Gift Fund are in the form of lump sums so they can be ad hoc and unpredictable, something which the donor advised fund set up can easily absorb.

Gifts are frequently in the form of shares, from client's investment portfolios, and Prism has gone to some lengths to publicise the efficiencies of gifting shares. **Anna says: "Gifting shares is incredibly tax efficient but the Government has not pushed it and the awareness is very low." She is concerned that people talk about the tax incentives on share gifting as being "too complex" as they are "about as attractive as they could be" and it would be a shame if the Government changed them. She would like to see a campaign to make people aware of the incentives.**

Prism takes care of all the record keeping. Quarterly statements show the status of the donor's account and where the donations have gone and annual statements details the donor's charitable portfolio by sector. Donors also receive an end of year statement to show any tax they could personally be reclaiming.

Anna is very aware that donors expect an increasing level of accountability from the charities they support and look for measurable results from their charitable donations. Prism therefore monitors the application of donations in accordance with the donors' wishes.

ucts for giving as they do in America. Community foundations can set up a separate fund to house donations and allow the donor to direct the distribution of funds. As they are charities, all donations they receive are eligible for tax reliefs. The investment income on the endowment is also tax free; running costs of a DAF tend to be 1 to 2 per cent of funds distributed.

Britain's 56 community foundations are intermediaries providing high levels of local knowledge at community level. Stephen Hammersley, chief executive of the Community Foundation Network estimates

that its members "effectively provide philanthropy services for over 12,000 individuals" who wish to anchor a part of their philanthropy in local communities. He believes a number of these people have found the process of managing their own foundations too onerous and community foundations offer a valuable intermediary role.

New DAF providers are emerging that will allow donors to determine their giving along thematic lines rather than by locality (see Prism case study on page 70 and Goldman Sachs Gives reference on page 27). The latter is providing the means for partners of the investment bank across the globe to conduct their philanthropy. Partners can elect to put a proportion of their salary into the DAF and then direct how it is distributed. The DAF will be managed free of charge by Goldman Sachs Asset Management. It is a powerful tool for encouraging staff to give that other companies can copy.

Other Vehicles

It is possible not only to pool financial capital, but also to pool social capital. For example, Social Venture Partners (SVP) is a group, now in its tenth year, which decides how to distribute pooled donations to local charitable ventures and back them with volunteer time. It originated in Seattle, Washington and has spread to other US states as well as Canada and Japan. The partnerships are organised locally, usually a city chapter, with partners each agreeing to contribute at least $5,000 annually. An international network, SVP International has also been established.[4] SVP finds that their model of team philanthropy encourages individuals to give more money (a 25 per cent increase annually) and volunteer more of their time.

In Britain, the Network for Social Change has been a semi-formal giving circle for philanthropists for over 20 years, pooling resources and making funding decisions at twice yearly member conferences. The network has grown to more than 100 members with an annual grant budget of £1 million. It is a place where wealthy individuals can assist and inspire each other to use their wealth responsibly, seeking the highest social impact possible through a collective process which involves its members in assessing, selecting and funding projects. Membership is open to any individual with over £250,000 in assets (excluding their main residence) and willing to pool a minimum of £3,000 each year although a careful selection process is used to screen new members.

The Network makes small grants, in the range £3,000 – £15,000, and tries to select charities which would otherwise struggle to find funds. Sometimes it commits larger resources (over half a million pounds) for complex multi-year projects, such as *Smart Justice* – a justice campaigning organisation initiated by Network for Social Change itself. It illustrates the power of peer support in philanthropy – individuals learning from each other and working collaboratively. It meets a need for individuals wanting to progress on their philanthropic journey. One Network member is quoted on the website as saying: "I was actively looking for an alternative to simply having standing orders to Oxfam and other large charities. I came across the Network for Social Change at a conference and liked the idea of having a closer connection to the smaller charities that were funded, the opportunity of meeting like-minded people, and the potential for being creative with my giving".

More recently The Funding Network (TFN) has been established to allow funders and charities to interact at funding events.[5] These are the charity equivalent of *Dragon's Den* or the "first Tuesday" in venture capital, providing a lively and informal marketplace where ideas and funding meet. The Funding Network has a lower bar to membership that the Network for Social Change, requiring a smaller mem-

4 www.svpinternational.org

5 www.thefundingnetwork.org.uk

bership fee and no minimum funding commitment. All projects are sourced by members themselves, who act as sponsors promoting them to other members. The average grant size is £5,000 and recently TFN has expanded from London to regional centres in the UK and has introduced two international chapters. The events have a buzz and liveliness that brings considerable fun to philanthropy, while ensuring that what is funded has been fully evaluated. It is a format which could appeal to those from the FSI who like working with entrepreneurs and enjoy the buzz of 'the pitch'.

4.1.4 Advisers

Private wealth managers, in particular the private banks, are waking up to the business of philanthropy. Today's wealthy, whether they have inherited their money or made it in business, are looking to their banks and financial advisers for guidance on giving as a part of their wealth management. Philanthropy is emerging as a new asset class and advisers who want to stay ahead must learn to advise their clients on what makes a good charitable investment and what are the social returns and the risks involved. As a first step for independent financial advisers (IFAs), the Securities and Investment Institute, the professional body for financial advisers, has introduced a module in "effective philanthropy" to the syllabus for its new Masters programme on wealth management due to begin in 2008.

As for the private banks, a recent poll identified just five that are able to provide the depth of service required by today's philanthropists: Coutts, UBS, Citigroup, HSBC and C Hoare & Co.[6] Some banks, like UBS, have developed a strong in-house team of philanthropy specialists who work alongside wealth managers. Others, such as Coutts, have strategic partnerships with specialist intermediaries like the Community Foundation Network or New Philanthropy Capital (74) to add the values-based component to their advice. Coutts also provides regular discussion forums for its clients, charity leaders and philanthropy specialists. Citi believes that the global reach of its banking operations gives it unique ability to match its clients to high quality projects in any part of the world, providing due diligence and brokering services for a client's donations. Both Coutts and Hoare are banks with 400-year histories and long traditions of giving philanthropy advice to their clients. Hoare's managing partner, Alexander Hoare, says that advising clients on philanthropy "is in the company's DNA; it is part of the ethos". He sees "a role for the private banks – we've got all the components of a donor advised fund."

Independent advisers on the values and softer side of philanthropy are few in number but have had considerable influence on the development of philanthropy in recent years. In 2006 the Institute for Philanthropy introduced the philanthropy workshop which provides individuals and families with professional advice and project visits. This emerged through the US-based Rockefeller Foundation, which has advised generations of philanthropists this way for many years. New Philanthropy Capital (74), as well as providing market intelligence on charities through a database of pre-screened charities and in-depth research, provides tailored advice on "the strategy of giving" for a fee to anyone intending to give at least £20,000 to charity.

4.2 Market Intelligence

To potential donors the charitable world is a wide open field which can be off-putting and confusing. When trying to decide which organisations to support in a particular charitable area or when trying to find out more about charities that they are already considering supporting, many people would understandably like to find

6 Wealth Bulletin, March 2007, www.wealth-bulletin.com

good, independent information. Until a few years ago, this was nearly impossible.

The situation has improved thanks in large part to the work of a growing number of organisations that are trying to promote "market intelligence" for the charitable sector. The idea is that by providing more information about the range of charities and more information about what they do and how they fit into a broader cause or sector, donors can make better choices about the organisations they support and give more effectively. The overall aim is to improve the quality of donors' giving experiences and in turn have a positive effect on the overall quantity of giving.

Paul Bernstein of Absolute Return for Kids (ARK) (42), says that people in financial services tell him that they struggle to find the great projects that they are looking for, "which says that if they found them they would give more". ARK applies stringent business assessment models to the charities it invests in and this is its main attraction for FSI professionals.

As with any burgeoning industry, the organisations in the charity market intelligence sector cater to a wide range of different groups. Guidestar operates a web-based platform designed to enable potential donors to obtain basic information on all 168,000 charities registered in the England and Wales.[7] It supplements data available from the Charity Commission on their website, but is supplemented by entries which charities make about themselves.[8] Guidestar intends to add charities, social enterprises and informal voluntary groups and to include organisations operating in Scotland and Wales. The website's advanced search facility allows for searching by eleven parameters including project areas, income or provision of information about performance. All this information is free of charge to view, but Guidestar is developing paid-for services called 'charity intelligence' for those, like funders or researchers, seeking a more sophisticated analysis. Guidestar was pioneered in the US as an informal portal for the non-profit sector and launched in the UK in 2003. With global ambitions, Guidestar International has collaborations in some European countries as well as South Africa, India and the US.

Founded by former investment bankers, New Philanthropy Capital (NPC) (74), publishes authoritative, research-based reports on charitable sectors and individual charities. Unsurprisingly given its origins, NPC views philanthropy as a form of investment based on good market intelligence.

A recent development is the Big Give (www.biggive.org.uk), a new website launched by the Reed Foundation, the charitable arm of Alec Reed's recruitment group. It is designed to provide rich individuals with information on suitable philanthropic projects for investment. The emphasis is very much on high net worth, since charities can only load projects on to the site that require funding of £100,000 or more. More than simply information provision, it is also a type of matchmaking service: wealthy donors can browse the site, filtering by categories, to find a project that interests them. The aim is to motivate them to consider making very large gifts (there is even a category for £10 million projects). In future, the Big Give aims to offer "seeing is believing" events when high net worth donors will be invited to visit specific projects on the site.

The area of market intelligence applied to charities and social enterprises helps a potential funder to understand the performance of an organisation with regard to its mission and it measurement of social value creation. There are tools being developed to measure these efficiencies and effectiveness. New Economics Foundation[9] (nef) has built on the work of the California-based foundation, Roberts Enterprise Development Fund, to develop Social Return on Investment (SROI) tools for the UK. These

7 www.guidestar.org.uk

8 www.charity-commission.gov.uk

9 www.neweconomics.org

New Philanthropy Capital (NPC) is a charity that advises donors and funders on how to give more effectively through a combination of published research and tailored advice.

NPC was founded in 2002 by senior figures from the financial services industry. They felt that the lack of easily available, high-quality information on the not-for-profit sector was a barrier to greater engagement for many donors. Senior research analyst Tris Lumley says: "Investing is broadly about confidence. If we look at investment banking and the advice provided by investment research and analysis, it's about giving confidence, talking openly about risk and talking about returns. If you don't have all those elements, a barrier remains."

What was needed, they decided, was a central source of accurate, independent information. This had the potential to attract significant additional funds into the charitable sector. By focusing on the impact that donors can have if they give their money effectively, they can be inspired to give more, and with more confidence.

As well as the focus on the information affecting donations to individual charities, NPC aims to have a broader role in developing the culture of information availability in the sector as a whole. Since its beginnings in 2002, alongside its research on specific organisations, NPC has produced a series of in-depth reports on areas of charitable activity. These are freely available on its website; the idea being that anyone with an interest in a particular social problem could make this his first port of call to find out more about the key issues and the most effective organisations working in the field.

NPC divides its information provision mission into three main streams: reports on areas of charitable activity; "charity recommendations" in the style of investment analyst research notes; and tailored advice for individual donors.

The freely available research reports are intended as a resource for anyone seeking information about a particular area of charitable activity. The business case for providing this service is a strong one, claims Tris: **"As with any sort of market information, we aim to be an intermediary that takes transaction costs out and shares economies of scale. Our research team does huge amounts of due diligence that few individual philanthropists would be able to do, and we're then able to share that."**

The charity recommendations are intended to give a snapshot of the work done by individual organisations: the problems they are addressing, the difficulties they face and the impact further funding could have. These are also freely available on the website.

As well as these generally available resources, NPC advises individual donors and helps with building a charitable portfolio. The level of engagement of these donors varies greatly. Sue Wixley, the head of marketing, says: **"Some donors have little time, so we meet them and put together a portfolio of charities. They then write us one cheque, we distribute the money to the charities and provide them with an update in a year's time…other donors have time and want to get hands-on involved. We work with them to educate them about what they want to do and to make choices about which charities to support."**

One of the things NPC has found is that although donors like to have a source of detailed, accurate information available, they are also keen to meet and get the opinions and perspectives of other donors. Sue says: "By doing so, and by reading about them in our newsletter, they see more role models of people that look like themselves and they have an idea of what others are giving to charity, so it's easier to gauge where they are compared to their peers."

NPC is a charity, and relies on funding from three sources: grants from private funders and charitable trusts for research into specific social issues, fees from donors for advice on making specific donations or grants, and core funding from NPC trustees and members.

Fees for advice to individual donors are based on a per diem rate, and are designed to cover costs rather than produce a profit. Typically fees will amount to between 2 per cent and 5 per cent of the total donated, depending on the level of advice and additional research required. As has been found in other cases, the indications are that wealthy donors are willing to pay a fair rate to ensure that their money is spent effectively. Sue is cautiously optimistic: "We're five years on now, and just getting to the point where we're looking at repeat business because people have given their first tranche of money. But we're finding that they do keep coming back, so far."

Measurement and metrics are at the core of what NPC does, and they are keen to encourage others to take their message on board. "We're aware of growing numbers of instances," says Tris, "where people are using our publicly available information and then advising clients based on that. And that's fantastic, because we want to get that stuff out there. We'd be charging for it otherwise!"

He also believes that greater focus on giving strategically can add a healthy dose of peer competition to philanthropy, particularly among City high fliers. "I think it's a critical mass thing. When you reach a certain point and your great mate who works in another company is taking a very intelligent, smart approach to philanthropy and you're sat there in this fantastically sophisticated organisation, giving money out completely ad hoc with no real thought, you might suddenly start to think 'hmm, we look a little bit less sophisticated…'"

tools, says nef, "can be used to measure the financial value of social and environmental as well as economic returns". They can be applied not just to social enterprises but to local government departments and company corporate social responsibility programmes – wherever organisations are accountable for the social and environmental value they create.

While the mission of a charity can never be reduced to a spreadsheet, there is much unreported information which would help funders reach decisions about effectively donating their money and skills. Attracting potential philanthropists from financial services requires good communication from charities on why supporting them is a rational endeavour based on consistent judgements about performance and impact.

4.3 Personal engagement and skills transfer

"They have energised us, provided high level guidance, given us great networks, provided us with excellent people and given me what I need in terms of mentoring, structure and support. I like the drive and urgency they bring" said one charity CEO quoted in a study by the Saïd Business School at Oxford University.[10] She was referring to a group of business people helping her grow and stretch her organisation. The money they brought was invaluable to her, but so too were the business skills and commercial mindset.

People who create value in business see the opportunity to bring skills and tools to the charity sector. We have already examined the impact volunteering and mentoring can have on philanthropic activity in Chapter 2 in our analysis of the role of companies as key motivators. It may be worthwhile for a team of accountants or investment bankers to spend a weekend painting a charity's youth centre. It may serve to connect them with their community, do something they have never done before, get a dull job done that nobody else wants to do and bond with their colleagues, but the same amount of time helping with marketing, cash flow projections or a supply chain

10 John R, *Beyond the Cheque: How Venture Philanthropists Add Value*, Skoll Centre Working Paper, Saïd Business School, 2007

Pilotlight is an organisation that aims to build the capacity of charities arranging coaching and mentoring by teams of business professionals.

Fiona Halton, Pilotlight's founder, discovered that many businesspeople were keen to give more than money because **"their time is more precious than their money in some ways"**. But there were often problems when they tried to get involved with charities.

Fiona originally ran excursions for wealthy donors to see the work being done by frontline charities. These trips often had a marked effect on donors who saw a charity helping clients with great needs. "They loved the idea, I think because there were the battlelines and the needs, and they could see the work being done."

However, it became clear that this approach wasn't necessarily solving the problems of the charities: "I don't think donors realised that they'd give a cheque and then four weeks later I might get a phone call from the charity to say, 'we're running out of money again.' It was not that the money was being misused; simply that the charities were usually operating on a crisis footing. They were, according to Fiona "very good at running the charitable side of things and finding the beneficiaries, but not always great at necessarily running the business".

Some donors could see what was happening and were keen to use their experience and skills to help. However, too often this did not work out and "things fell apart very quickly…it was all understandable because on both sides were busy people, perhaps working on different timescales, and they both felt guilty about telling the other party they couldn't do it."

There must, Fiona felt, "be another way of involving people who were often highly intelligent and wanted to get interested in philanthropy." The solution was to set up an organisation that could act as an intermediary to bring together "the two different worlds."

As a crucial part of the process, Pilotlight staff interview potential charities and potential volunteers in order to match skills with needs as effectively as possible.

If this match between charities and "Pilotlighters" is made effectively, it quickly becomes apparent where value can be added. Finn Green, a Pilotlighter from the private equity industry, recalls, "the most exciting part of Pilotlight for me was the first meeting with a charity, where the director of the charity was expressing the problems they were experiencing, and those problems were kind of the things I'd been trained to deal with at work – like strategic planning, personnel and time management. I realised those are the things I deal with in my day job all the time!"

The first project with a charity is generally to produce a business plan. Critically, this is done by helping the charity to develop the skills needed to produce its own plan. It can be difficult to get businesspeople who are used to producing business plans quickly to see the value of this. But Fiona believes that **"the most crucial thing to get across to the volunteers is that they're coaching, not telling…they often think that the answer is a plan that can be written in a couple of weeks…We say, however, that for a charity or a social enterprise to really benefit from what we're doing, the process is a slow burn and they're being coached."**

Pilotlighters are all are people who have considerable experience of running teams or projects. When they join, they are placed in teams of four with complementary skills and matched with the charities. The key features of their subsequent involvement are that:

- The whole process is handled by a Pilotlight project manager, including organising and running meetings, taking minutes and so on.
- On average, members attend one meeting every four to six weeks lasting around two to three hours – based around their own availability
- A typical assignment lasts roughly 18 months

- Each member makes a contribution to Pilotlight of £1,300 per annum –the organisation itself is a registered charity sustained by the members' donations.

The decision to charge volunteers was taken when it became clear to Fiona from discussions at the outset that, "Our members will give to have their time used properly."

Pilotlight volunteer Finn Green says: "You need a substantial resource in the middle, to ensure that members' time is used as effectively as possible and to be able to 'translate' – **speaking both the language of business and of charities such that all parties understand each other clearly."**

Pilotlight is aware that many of its members are keen to have some way of quantifying the impact of their work with a charity. This has been one of the most difficult aspects of developing the Pilotlight process, but one that they feel they have got to grips with: "It has taken us years to work out how we do the metrics. We are now very confident that we can show change in a charity's capacity, and we have a full-time evaluation manager."

The calculations are tailored to each individual charity and agreed at an early stage of the process. The key point for Fiona is that "it's got to be simple, it's not got to get in the way of running the charities, and it's definitely not one size fits all."

issue could be more valuable for sustaining an entire charitable organisation in the long run.

However, short volunteering assignments are a good entry point to the charity sector; Tom Hughes-Hallet, former banker and now CEO of Marie Curie Cancer Care (40) believes "there is something about offering volunteering opportunities because once you volunteer I think you are quite likely to give." Volunteering is a popular form of charitable engagement in the UK: a 2007 survey by the Office of the Third Sector in the Cabinet Office found that 59 per cent of their sample group of more than 2,000 people had given formal volunteering help.[11] And among the senior Citi employees whom we surveyed, 38 per cent had given time as well as money in the past year. The main barrier for busy professionals is time.

Climbing up the ladder in a financial services company puts pressure on individual's time. Man Group (31) actively encourages its staff to get involved in charities that interest them, matches an individual's fundraising efforts and most importantly, gives several days off each year for staff to actively get involved. Man Group's deputy chairman, Stanley Fink, says about his own personal philanthropy: "I want to see the pleasure of giving. I want my children to see the pleasure of giving now, not when I am old." Former Goldman Sachs partner Scott Mead says: "Within the culture of the companies, it should be emphasised that someone who makes a commitment to spend some time on charitable work will not jeopardise their career; in fact they will become a more rounded person, they will engage more in their community and they'll be an ambassador for their company. I think there should be more encouragement and support broadly to do that."

Private equity group Permira reports that a quarter of its London staff have been involved with social enterprises through its venture philanthropy partnership with the Community Action Network (CAN) (82). Permira's Benoit Vauchy, who coaches the CEO of a social enterprise, feels their model is powerful "because there is a skill gap in social enterprises when they grow bigger". Without the backing of his firm, Benoit, in the early days of his buy-out career, would not otherwise have found the time for this depth of involvement. When Jim O'Neill, chief economist at Goldman Sachs (33), and others set up the venture philanthropy

11 *Helping Out: A National Survey on Volunteering and Charitable Giving*, Cabinet Office/Office of the Third Sector, 2007

The Kilfinan Group is a group of senior businesspeople who mentor the chief executives of charities.

Nick Ferguson, a veteran of the private equity industry and a keen philanthropist, had mentored the head of a charity since the mid-1990s. It seemed to have worked so he got eight friends together, mostly from financial backgrounds, to start mentoring charity heads and proposed: "We'll do it for three years, and if it hasn't worked, have a dinner and give it up."

That was five years ago and the dinner hasn't happened yet. In fact, the response from charity chief executives made it clear fairly early on that it wasn't going to happen any time soon.

Tom Hughes-Hallett, CEO of Marie Curie Cancer Care, who is mentored by Nick, says that his motivation for getting involved was that "it's quite lonely being a charity chief executive actually. It's an unusual governance structure in the sense that you've got no shareholders and, even more unusually, most of us are delegated to as the sole officer. So whereas in a company, a plc, the delegation is to a board, in the charity sector it's to a chief executive."

So it helps the charity chief executives because they have someone who can act as a "critical friend" and talk thorough problems with. Likewise it provides an opportunity for senior businesspeople to offer the benefit of their knowledge and experience to their counterparts in the charitable sector.

The Kilfinan Group's focus is tight, according to Nick: "We're selective in that we will only do chief executives of charities. That's all we do: CEOs to CEOs." So the group members have relationships with the chief executives, not the charities themselves. As Tom puts it: "It's very personal, it's not about Marie Curie, it's about Nick and Tom."

In a typical meeting, Tom says, "I go and sit in Nick's office with a problem, and it's normally a singular problem, a difficult one where there's probably not an answer. It may well be a problem that I feel I've talked through with my colleagues, and sometimes not; maybe a really difficult personnel issue at board level. And we'll talk it through. Nick is incredibly good at it because he always has a view and isn't frightened of giving it…**You come back with advice from someone you greatly respect, which is very clear and you can either accept or not. But it gives you the confidence to do something quite brave.**"

Obviously a key part of the process is ensuring the match between a mentor and a prospective mentee. When the group was first set up they enlisted the help of New Philanthropy Capital (some of whose founders Nick knew well) to take care of this side of things. As the group has grown in size from the original eight members, it has become sensible to bring the matching process "in house". There is now a part-time executive staff member, Amanda Delew, who is responsible for pairing mentors and mentees, and for monitoring the ongoing relationships.

The time commitments are not onerous for either side, according to Nick: "It varies from relationship to relationship. If there's some of sort of crisis it's more, but on average people see their mentees four or five times a year for three hours, and then they're there for phone calls and so on."

And Tom thinks that to keep the relationship working well, it is important not to meet too often: "It's very refreshing in that way. It's not, 'Oh Nick, how lovely to see you – I've got *another* problem!' It's like going to see your consultant if you're ill; it's very clinical."

Nick decided to keep going with the Kilfinan Group after the self-imposed initial lifespan of three years because of the enormous amount of positive feedback the members of the group received from the charity CEOs who took part: **"We had a professional survey done on the people who'd been there – we wanted to make sure everyone wasn't just being polite. But it got great reviews from the heads of charities and so we decided to build it up…We're now up to 50 people."**

The group is organised into chapters of about 15 people, who meet twice a year. At these meetings, Nick says, "we share round the table the issues that we've heard from our mentees. Everybody understands that the mentor/mentee discussions are strictly confidential except for this sharing in the chapter, where we can give each other advice, and identify recurrent issues. And then we go off and have a pizza together, because it's quite a fun network of people to be in!"

In order to keep this exchange of knowledge and experience working, it is essential that the group work in these chapters. Otherwise "if there are too many people round each table then they won't be able to interact properly and get to know each other and be able to swap notes."

organisation SHINE they quickly realised that they had more than money to contribute: "We brought the business mentality that we had from being in the City – we wanted to give in a way that would apply commercial techniques".

For a few, engagement becomes a full-time occupation, and they go native. In an unusual move, Tom Hughes-Hallett (23) switched from a lucrative position in investment banking to running a national cancer charity at the age of 47. Tom had volunteered for a number of charities, so knew the sector. At the prompting of his wife: "Why don't you make the evening job the day job, because you seem to enjoy it a lot more?" Tom made his move and has not regretted it: "I love it. It's the best job I've ever had and I don't know why I didn't do it earlier really."

After a post-university stint in Africa, Stephen Dawson spent the next 30 years building a career in venture capital, with little thought to philanthropy other than a niggle at the back of his mind about how his donations to local charities could have more impact. While easing out slowly from running ECI Ventures, the London-based venture capital firm, and a plc chairmanship, Stephen set up Impetus Trust, a venture philanthropy firm that provides development capital and business skills to medium-size charities. Now retired, he spends up to four days a week on his role as a volunteer executive as well as the trust's chairman. His own transition has been successful and he recognises that "one of the great things Impetus has been able to do is plug people from the business world, whether it is financial services or whatever, into charities very, very quickly and they are useful virtually instantly." Stephen is sanguine about the opportunities now available for people to give both time and money to charitable ventures, feeling it is "a very important message that needs to get out".

For the new breed of very wealthy young entrepreneurs that have emerged from the City in the recent period of unprecedented wealth creation, the ideal philanthropic methodology is one that blends money with skills. Chris Mathias (18) is explicit in his use of both his money and his expertise saying: "I never give money simply by giving money, because the impact of money and time is far greater. I learnt that from Impetus and there's no doubt in my mind". There are a number of philanthropic models emerging that are based on increasingly complex financing structures and that require hands-on management from seasoned financiers and business professionals in order to succeed. These opportunities that require technical expertise as well as a large cheque book are ideal for keeping career philanthropists engaged, motivated and inspired to do more.

The potential impact that FSI professionals can have by engaging successfully with charities can be enormous. But it requires focus and effort to ensure that these skills are employed properly, so that the engagement is successful and the

donor is not frustrated. One of the difficulties our interviewees often alluded to is that people from finance services and people from charities with no experience of one another's worlds find it hard to communicate. To overcome this difficulty and to try to maximise the benefit on both sides, there are a number of organisations such as Pilotlight (76) that act as intermediaries between charities and volunteers from the commercial sector, to ensure that the relationship works for both sides. Pilotlight's founder Fiona Halton says: "The particular type of skills giving we do needs, we feel, to be intensively brokered."

In the same way as an FSI professional's skills in finance and management develop as they move up the career ladder, their engagement with charities can develop too. For those at the top of their profession, it may not be appropriate or possible to spend time thrashing out the strategy of a small charity. However, the huge skills and experience of these individuals can be harnessed in other ways and the Kilfinan Group (78) exists to facilitate CEO to CEO mentoring. It is an informal network of senior business people, predominantly from the FSI, who act as mentors to chief executives from the charity sector. By focusing on the personal relationship between top people from business and top people from charities in this way the exchange of ideas and experience is very effective.

4.4 New Methods for Philanthropy

The new philanthropy models that have emerged in the past ten years have largely been developed by individuals or companies in the financial services industry. They want to combine charitable finance with business and finance thinking for the permanent benefit of the recipient charity or enterprise. Venture philanthropy, social venture capital and the mezzanine funding models of Venturesome (84) have all the products of crossover experimentation from the venture capital industry.

At the same time there is growing awareness that positive social transformation is not the sole preserve of traditional charities. Social enterprises and socially responsible businesses aim to trade goods or services profitably while also generating additional public benefit. Both supply and demand are in search of new partnerships. The Ethical Property Company (88) is structured as a Plc, raises capital from shareholders, whose business is supplying high-quality business premises for charities and community organisations. On retiring from Goldman Sachs, David Blood (91) was frustrated by the contrast between investing in businesses and investing in charities. In setting up Generation Investment Management (with US Vice President Al Gore), David wanted to "harness the power of capital, and capital markets, to address other things…given the challenges we face" by investing in sustainable businesses.

There is a steady blurring of this divide between fully commercial and fully charitable investment, and a new breed of holistic advisers is emerging to help people to invest their wealth across a range of asset classes and to blend business and philanthropic values. Investing for Good (89) offers investment advice and consultancy on integrating these different types of investments into clients' profiles.

These partnerships are providing wealthy people with a new array of investment opportunities, where financial and social return can be thought of as blended rather than distinct. Whether providing grants for a venture philanthropy operation, buying shares in a socially responsible company or investing in sustainable businesses, capital can be put to work creatively for social good; and these new opportunities should open up more business minds to philanthropy in its broadest meaning

since their models should appeal directly to the financier or entrepreneur.

4.4.1 Venture Philanthropy

In the late 1940s, an Oxford-based businessman, Cecil Jackson-Cole, was instrumental in creating Oxfam out of the wartime Oxford Committee for Famine Relief. For the next three decades he deployed his own business capital and acumen to launch a string of charitable enterprises including ActionAid and Help the Aged International; his legacy foundation continues to help new ventures to start up or grow to this very day. Jackson-Cole practised venture philanthropy in all but name.

Over the past 15 years, initially in America, but now throughout Europe, venture philanthropy is growing rapidly. Venture philanthropists view charities and social enterprises as investments in need of the capital and advice required for sustainable growth. Like venture capitalists they will back a venture run by a capable management team with development finance and consulting, mentoring and access to networks. Their goal is to build a stronger, more sustainable organisation that will deliver greater social impact. These new social venture capitalists run small portfolios of ventures, exercise due diligence and focus on building an organisation's internal capacity. They may solicit help from management consultants, accountants and other experts as they turn these organisations around.

Stephen Dawson, a career venture capitalist, retired from ECI Ventures to launch Impetus Trust in 2002, now a rapidly growing venture philanthropy fund with a portfolio of nine charities or social enterprises. The private equity firm Permira has teamed up with a social entrepreneur network to create Breakthrough (82), a venture philanthropy fund focused on "scaling up" social enterprises, and recently private equity firm Doughty Hansen, in partnership with Coutts Bank has set up Smart Fund with Cranfield Trust providing consulting services to charitable ventures. Although it is not unusual for such firms to discharge their social responsibilities through a traditional grant-making trust (Doughty Hanson and Execution each has its own foundation), there is a new trend to engage deeper with charitable organisations through venture philanthropy.

Not surprisingly, the entrepreneurial, Anglo-Saxon approach of venture philanthropy has attracted most interest in America and Britain, but it is taking root in continental Europe too – the European Venture Philanthropy Association (EVPA) has grown rapidly. EVPA was set up in 2004 as a peer network for venture philanthropists across the continent. Its five founders, from the Netherlands, France, Italy and Britain, are all well established in European private equity. It had a membership of 75 in 2007 and its annual conferences attract more than 300 participants, many from private equity.

A stellar list of European private equity firms (including Blackstone, Apax, Bain Capital, KKR and Goldman Sachs) together launched the Private Equity Foundation (44) in 2006 as the industry's attempt to pool philanthropic resources.

4.5.2 Risk or Mezzanine Funding

The Office of the Third Sector acknowledges that charitable organisations have generally been sceptical about using loans to finance their development and growth and take up of these financing options is sluggish.[12] Charitable boards tend to be risk averse and are often ill-equipped to understand the risks and benefits associated with debt financing. This, coupled with collateral and personal liability issues, has resulted in many charities not making use of financing that may be highly appropriate for them. However, research by the National Council

12 *Third Sector Access to Finance*, Research by SQW Ltd for to the Cabint Office Office of the Third Sector, May 2007

Breakthrough is a venture philanthropy partnership between private equity firm Permira and social enterprise practitioner network CAN. Adele Blakeborough is chief executive of CAN and Damon Buffini is the chairman of Permira and sits on the Breakthrough advisory panel which selects those social enterprises for investment.

Permira's chairman, Damon Buffini, recalls sitting down with his partners four years ago with the thought: "We all do things individually as philanthropists, but wouldn't it be great if we could harness the power of the firm, not just the power of money, to create real impact?" **Damon's hunch was that "by taking what the firm does – enterprise – and coupling that to an area which would touch the lives of hundreds or thousands of people, it would be a very efficient way of giving."** Permira set about looking for such an opportunity. The light bulb lit up when Damon and his partners came across the concept of "social entrepreneurs" – highly motivated individuals who believe that enterprise can help solve intractable social problems. "That resonated with us very directly; we are entrepreneurs who have built a business up from scratch. Here were people who believed in enterprise, could build a business and have a long term perspective."

When Damon met Adele Blakebrough, chief executive of the Community Action Network (CAN), he knew he had found the right partnership. CAN is a practitioner network rooted in the rapidly growing social enterprise sector and well placed to understand the constraints social entrepreneurs face in developing their organisations to the point where they can have national impact. In 2005 CAN and Permira launched Breakthrough – to help social entrepreneurs develop their enterprises in this way. Permira capitalised the initiative with an initial €1 million injection of non-returnable grant for a two-year pilot programme. Based on the pilot's success, CAN and Permira launched Breakthrough II (investing a further €2 million) in 2007 and are opening up this fund for contributions from other investors.

Breakthrough seeks sustainable and profitable social enterprises with a minimum turnover of £500,000 and three-year trading history, with ambitions for growth and a credible business plan for expansion. These businesses need a strong leadership team and appetite for the kind of hands on involvement on offer.

Breakthrough has five social enterprises in its portfolio. Green-Works recycles office furniture and provides jobs and training for disadvantaged people; Law for All delivers high-quality social welfare legal advice; Training for Life is a training and employment scheme for vulnerable people; Timebank is an innovative charity providing volunteering opportunities for over 250,000 volunteers; FareShare addresses poverty in communities in partnership with major supermarket chains and food retailers. These enterprises have annual turnovers of between £1.4 and £3.6 million.

The Breakthrough advisory panel, responsible for investment decisions, performance and resources includes Adele Blakebrough, Damon Buffini and senior representatives from companies in fields including strategy consulting, accounting and brand management. Damon sees the investment process as no push over: "We wanted a rigorous investment process with real commercial discipline, so that the social enterprises would demonstrate real growth in social impact."

The first Breakthrough fund invested an average of £105,000 directly into each of the portfolio enterprises split between working capital, expansion capital, increased management capacity and outsourced consulting. Non-financial support to the portfolio managers is provided by CAN's chief executive (peer support), Permira staff (mentoring) as well as the CAN team and external consultants (project support). **Damon saw the direct involvement of Permira staff as critical.** At a

company conference he told them about Permira's commitment to the project. "I invited Adele and two of the social entrepreneurs we had agreed to support to speak," explains Damon, "and asked staff if they would like to get involved through mentoring." He was surprised by the take up. **"We had more volunteers than we could accommodate at the time."**

Across the portfolio, turnover in the first fund of Breakthrough enterprises has grown an average 20 per cent during the two years of the fund. Social impact has grown faster, at 40 per cent (evaluation included metrics like tonnes of furniture resold, number of disadvantaged people into work, number of volunteers placed) . "Breakthrough funding made a big difference to our business," says Training for Life CEO, Gordon D'Silva. "Support with working capital reserve is scarce today, but the opportunity to work with individuals with the level of expertise that Permira has is just as valuable." In developing Training for Life, Gordon faced the challenges of cash flow (with contract payments in arrears) and a step-change in business processes during its expansion. Solutions included a ring-fenced working capital reserve account, mentoring from a Permira executive and technical advice from Permira's IT department on an upgrade to the accounting system.

There are several reasons why this innovative approach sits well within Permira's organisational culture. First, there is a clear alignment with the company's core business practice of helping to grow stronger, more robust and responsive enterprises – the principles and tools of venture investing can be applied as much to social enterprises as purely commercial ones. **"What CAN does – scaling up enterprises – that's what we do here at Permira," says Damon. "The issues we try to address with CAN are similar to our day-to-day business."**

Secondly, Breakthrough is working to provide Permira's staff, at different levels of the company, with opportunities to become actively involved with the social enterprises it supports; not only during due diligence and selection, but throughout the lifetime of the engagement. A quarter of Permira's London-based staff has been involved, in one way or another, with the Breakthrough project. "Giving time, expertise and competency is something private equity can bring," says Permira's Benoit Vauchy, who has worked intensively with Gordon D'Silva at Training for Life. "It is much more valuable than just money."

Damon considers the Breakthrough project successful enough to say: "I would consider rolling it out to Permira's other offices, although for the time being we are focused on getting to work in the UK." Damon believes the firm has learned that a package of money and staff time "really magnifies impact", and that **"social enterprise, addressing social needs through commercial thinking, has really opened our eyes – it has changed people's attitudes to philanthropy."**

The partnership between CAN and Permira is an important development for venture philanthropy. It signals that private equity firms (not only individuals from that industry) view venture philanthropy as a relevant model for corporate philanthropy, providing access to grant capital and the skills found within private equity.

for Voluntary Organisations (NCVO) suggests that demand for loan finance is rising steadily. Futurebuilders, set up in 2004 to provide loan funding and development grants for organisations engaged in delivery of public services, has greatly influenced a reluctant sector.[13] The Esmée Fairbairn Foundation launched a loan programme in 2003 to complement its traditional grant-making. The Adventure Capital Fund, initially capitalised with Home Office funding, is aimed at local community enterprises and uses a mix of loans and grants, backed with a tailored support package.

13 *Voluntary Sector Strategic Analysis* 2007-08, National Council for Voluntary Organisations

Venturesome helps donors support small and medium-size charities, recycling their money to achieve more impact. John Kingston founded Venturesome after a career that had crossed the private and charitable sectors.

John Kingston spent his early career with ICFC (later to become 3i) before moving to the large UK charity, Save the Children. With a foot in each camp, John realised that several of the financing mechanisms familiar from venture capital and investment banking could be adapted for organisations with charitable purposes. He took his ideas to CAF proposing the launch of a new risk fund to test this proposition. Venturesome was launched in early 2002 to explore alternative approaches to the financing of organisations with a social purpose. Venturesome works with these organisations to help them to analyse their financial needs, to manage the timing of raising funds through underwriting and to invest risk capital in these organisations using unsecured loans and equity-like investments. It has been backed by five individuals from the financial services sector as well as several grant-making foundations and a bank.

As a risk fund, Venturesome seeks to support charities that find it difficult to raise funds from more traditional sources, such as grants or bank borrowing. This may be because the application falls outside traditional grant-makers' criteria, does not involve a specific project, has too large a commercial component or because competition for funding in the sector is intense. Some charities actively seek debt, from banks or specialist lenders, as part of a longer-term funding strategy. Venturesome concentrates on underwriting and unsecured lending products; on occasion, a stake in the performance of the organisation may be part of the investment (quasi-equity). The primary target market is small and medium-size charities; Venturesome has also worked with social enterprises with a clearly defined charitable purpose.

The heart of the Venturesome model is to balance financial risk with potential social impact; the key concepts in its approach are *recycling* and *social return*. Venturesome is not a grant-maker, and therefore there is an expectation that investments will be paid back or "recycled". It is able to assume higher financial risk than a conventional bank lender, which, in the absence of security, would assess the charity or project as too risky or as having too high an appraisal and monitoring cost. As a result, recycling rates are projected to be lower – a bank lender would project rates of more than 98 per cent, whereas Venturesome projects an average recycling range of 75 to 80 per cent. **Such a rate of recycling means that the funds invested in the voluntary sector through Venturesome work hard, perhaps being recycled four or five times.** This contrasts with both the commercial banking sector (recycled many times against security) and the one-off donation of a traditional grant-maker (not recycled).

Venturesome does not necessarily expect a higher financial return for this increased risk, but expects, and monitors, social outcomes. The total return is therefore made up of both financial and social elements.

Venturesome provides three types of finance:

- *Pre-funding of capital fundraising*: bridging finance
- *Working capital*: underpinning cash flow/financial stabilisation
- *Development capital*: building new streams of income generation, and/or the charity's capacity to grow

During its first five years, Venturesome used mostly pre-funding and working capital tools, but today the emphasis is providing development capital to charities and social enterprises,

Venturesome has gained considerable understanding of the risk levels associated with the different financial needs of charities. It classifies its deals along a risk spectrum, from

"low" (hard development capital and closed working capital) to "high" (open working capital and soft development capital), illustrated in the following investments:[14]

Questscope (2004)
(Closed Working Capital)
Questscope is a British-registered charity working in Jordan with marginalised young people. Questscope was grant funded (about £2 million) by the World Bank and the European Union to deliver a project. However grant payments from both institutions could arrive as much as 14 months after the date of expenditure – leading to significant working capital problems. Venturesome provided a short-term £60,000 loan, which was repaid in full and on time at the end of the project.

Viva Networks (2003)
(Soft development capital – quasi-equity)
Viva Networks works with street children overseas and wished to seek donations from individuals through a direct mail appeal. Venturesome provided a £75,000 development capital, quasi-equity facility linked to performance of fundraising from individuals over five years. Despite a successful pilot, the roll-out of the mailing coincided with the tsunami disaster of 2005 and performance was below expectations. By early 2007 Venturesome had not yet received any return. However, the charity's overall financial position has changed radically for the better over the past three years and its operational work has grown substantially.

Since its launch, Venturesome has made 150 commitments, worth £10 million. Of that, £4.9 million has already been recycled, with losses of around 5 per cent. The first fund raised by Venturesome (the Venturesome Investment Fund) now totals £7 million, supported by CAF and 12 others including a mainstream bank, grant-making foundations and private individuals.

More than ten years ago, and long before the current fashion for debt arrangements took hold, the Charities Aid Foundation (CAF) set up Investors in Society to provide loan finance to charities. Building on that early and modest experiment CAF collaborated with John Kingston, who moved from Save the Children (UK) and had a venture capital background, to create a new risk fund called Venturesome (84). Venturesome wanted to increase the range of funding options available to charities and over time contribute to building a healthier social investment market that could absorb and benefit from new resources.

4.2.3 Social Venture Capital

Bridges Ventures (86) is the first European example of a well-established American model – a community development venture capital (CDVC) fund, which invests in businesses in low-income, underinvested communities. In the words of Kerwin Tesdell, president of the Community Development Venture Capital Alliance, in New York, it "combines the tools of traditional venture capital – equity investment and entrepreneurial assistance – with the goals of community development, to stimulate the creation of new businesses, high quality jobs and healthier communities."

CDVC funds provide equity capital to businesses in underinvested markets, seeking financial returns as well as the creation of good jobs, wealth and entrepreneurial capacity. Like traditional venture capital funds they seek high growth opportunities, excellent business ideas and strong management teams, but in needing to balance social and financial returns, tend to make smaller equity investments (£125,000 to £1 million) in businesses that most readily provide employment for low skilled, entry-level workers – in manufacturing, service or retail industries. There are more than 60 such funds in America, managing $870 million. The US-based Community

14 Bolton M, Kingston J and Ludlow J, *The Venturesome Model: Reflecting on our Approach and Learning 2001-06*, Charities Aid Foundation, 2007; www.cafonline.org

Bridges Ventures is a venture capital company with a social mission. Michele Giddens has been a director of Bridges since the inception of the first £40 million fund in 2002. Bridges raised £75 million for a second fund in 2007.

Bridges was borne out of the Social Investment Taskforce, led by Sir Ronald Cohen, which in 2000 called for the Government to put up £100 million to create venture capital funds that would finance inner-city regeneration. The Government did not produce £100 million, but agreed that if some private money could be raised for a first fund, it would match it.

Apax Partners (Sir Ronald Cohen), 3i and entrepreneur Tom Singh, Founder of New Look, formed the first fund. They were determined to create the first European example of a community development venture capital fund, a model long established in the US, which invests in businesses in low-income, underinvested communities. This group of successful business and finance professionals saw the potential for a business model that could blend social aims for low income communities with a final return for private sector investors.

When describing the model Michele says, "Bridges has a dedicated social and environmental purpose. It's not philanthropy and it's not pure profit maximisation without regard to social and environmental impact."

Financial returns to the fund partners and investors in five years time, when the first ten-year fund is wound up, are likely to be substantial. On exiting the first investment, in label printer Harlands of Hull, Bridges made an internal rate of return (IRR) of 84 per cent. The social impact of that investment was also significant since 50 jobs were saved through turning around the company and five more were added.

To engrain Bridges social mission right through the company, there is a charitable trust that owns a portion of the shares of the management company and it will be gifted a portion of the carried interest that goes to the team, "so that there is effectively a motivation to succeed on behalf of the charity as well as for self-interest".

Bridges is an entrepreneurial venture and Michele is very committed to it. She says that it attracts top quality staff, who prefer the Bridges mission to that of other more mainstream funds. Of the big individual investors associated with Bridges, she says, they tend to be "very wealthy, entrepreneurial, to think out-of-the-box and take risks", so the Bridges opportunity appeals to them. Bridges has also set up the *Bridges Entrepreneurs' Club*, comprising more than 20 successful entrepreneurs and business people across Britain to support the companies in which it invests.

Bridges invests in commercial enterprises in economically deprived areas. The investments tend to be small for the sector, between £125,000 and £1 million. The portfolio is balanced between early stage, management buy-out and property-backed ventures. It seeks high-growth opportunities, excellent business ideas and strong management teams and aims to bring the best of venture capital investment to these opportunities – a long-term outlook, hands-on support and understanding of the issues growth brings.

There are targets for social impact – companies invested in must create jobs in the local economy, source materials from local suppliers or stimulate economic growth in the community. Bridges aims to back local entrepreneurs who can develop into role models for success and aspiration in their community.

It applies venture capital checks and balances on its investments just like any venture capital fund and it subjects the social impact to as rigorous targets and management as the financial and business side of things. "We are a mission driven investor and the controls on performance of all types are there through who we are and what we do," explains Michele.

The £40 million for the first fund was raised half from

private investors and half from the Government as a "subordinated component", meaning that the Government took more risk and a lower return than the private investors. **Michele says: "The government subordinated funding was the real key to raising the first fund, it was catalytic money."**

Many investors had lost money on small regional regeneration projects and she says: "If we had gone to the private sector and said 'we want to invest in the most deprived 25 per cent of the country, we are putting together a team that does not exist yet, nobody has really done it in the UK and, actually, some people who have done small deals in the regions have lost significant amounts of money,' they would have said 'how sweet' and they might have given a few thousand pounds of charitable money but they would not have made an investment."

The Government money effectively turned £20 million invested in the most deprived parts of the country into £40 million; it helped to get the first mission-driven venture capital investor off the ground and it has now raised £75 million for its second fund without any government seed-funding at all. However, Michele does not pretend this was easy. She is candid that they had to approach a lot of people to achieve that £75 million.

The biggest investors in the first fund were high street banks, just like any other venture capital fund. In the second fund, Bridges has attracted pension funds, individuals and other private equity investors who see this "as a way of giving back". **One of the most difficult things for Bridges is to know whom to target within an institution because there is not yet a special asset class for social investment alone.** Often they have to go straight to the top of an investing organisation in order for the CEO to decide where such an investment would go in the portfolio and this can make it difficult for potential investors to decide whether to invest at all.

Development Venture Capital Alliance is the network for these funds and has itself recently invested in Bridges Ventures.

4.3.4 Developments in the Social Enterprise and Investment Market

One of the Government's recent innovations for social investment in Britain has been the introduction of Community Development Finance Institutions (CDFIs). These are sustainable, independent bodies supplying capital and business support to individuals and organisations that create wealth in disadvantaged communities or underserved markets. There are about 60 CDFIs in the UK and in 2005 the total loan and investment portfolio stood at £181 million with loans ranging from £1 million to £50 million.[15] For example, HBV Enterprise is a CDFI working in seven London boroughs, providing start-up, small enterprise and micro loans, with a special focus on women and black and ethnic minority groups. The Women's Employment and Enterprise Training Unit run by the Full Circle Fund provides micro loans (similar to the Grameen Bank in Bangladesh) for entrepreneurs in Norwich. Bigger CDFIs, such as Charity Bank and Triodos Bank which are helping the Ethical Property Company (88) to raise money, are specialist finance providers covering the whole country.

CDFIs provide finance for a wide range of organisations, many of which are social enterprises. These are businesses which trade (and aim to do so profitably) with a clear social purpose. Many, like Cafédirect, *The Big Issue*, the Eden Project or Jamie Oliver's Fifteen restaurant, are well known brands. But there are an estimated 55,000 social enterprises in the UK, and the majority are small, locally based ventures – some stay small and local while others have ambitions for growth.[16]

The introduction of community investment tax relief (CITR) in 2002 boosted investment in CDFIs by individuals, foundations and companies. CITR offers a tax incentive to investments made through

15 *The State of Community Development Finance*, the Community Development Finance Association, 2005

16 Annual Small Business Survey, DTI, 2005

The Ethical Property Company (EPC) is a profit-making business that provides quality workspace for organisations with a strong social purpose.

Affordable, high-quality office space for charities, social enterprises and community organisations has never been easy to find. In 1982 Andrew King purchased a property in Colston Street, Bristol to house the many co-operatives springing up around the city, offering tenants reasonable rents, shared premises and resources and a sympathetic landlord. Further properties were purchased in Bristol and later in London, with expansion financed through Triodos Bank. In 1998 Andrew and his business partner, Jamie Hartzell, set up the Ethical Property Company plc to roll out a property portfolio across four other cities. Today EPC owns and manages 12 centres occupied by 130 tenant organisations in six locations, a property portfolio valued at over £17 million.

From the beginning EPC was designed to be a profitable company, delivering value for its shareholders without compromising its social goals – providing quality workspace for organisations with strong social purpose, contributing to urban regeneration and a positive environmental impact. Established as a plc it chooses to raise capital through share issues. With the help of Triodos Bank and Malcolm Lynch Solicitors, the first share issue was launched in May 1999, raising £1.72 million. A second share issue in 2002 raised an additional £4.2 million and last year a third share issue raised £3.6 million. The company has an £11.4 million borrowing facility through Triodos Bank, of which £7.4 million is on a revolving credit basis.

There are well over 1,000 shareholders in the company, investing amounts ranging from £100 to over £700,000. There are two institutional investors: Henderson Investors and Morley Fund Management, but all the rest are individuals. EPC is the first social enterprise where ethical unit trusts have made a substantial investment in an unquoted company. **Shares are traded on a matched bargain system through its stockbroker Brewin Dolphin, meaning that shares can be sold if a buyer is available.** In practice, EPC finds an excess of buyers over sellers – at a level of liquidity satisfying their shareholders. Last year turnover increased 9 per cent with profits after tax totalling more than £250,000. The company has returned a dividend to shareholders over the past six years.

EPC can deliver shareholder value while maintaining clear social and environmental goals. The company reports annually on its environmental and social impact, for example its properties' carbon emissions were reduced by 59 per cent in 2006; high tenant satisfaction, access and investment in socially excluded areas.

The number of social purpose plcs in Britain – such as Cafédirect, Traidcraft, Good Energy and Triodos Renewable Energy Fund – is growing. Like EPC they combine the disciplines of a plc in raising capital publicly and managing shareholder investors. They combine the creation of shareholder value with tangible social benefits.

accredited CDFIs. The relief is worth up to 25 per cent of the money invested, spread over five years (5 per cent a year) and is worth 8.33 per cent gross a year for higher-rate taxpayers, 6.41 per cent a year for standard-rate taxpayers and 7.14 per cent a year for main-rate corporation tax payers. For example, an investment of £100,000 would entitle the investor to tax relief worth £5,000 each year for five years. To qualify for relief under the CITR scheme, the CDFI must be accredited by the Secretary of State for Business, Enterprise and Regulatory Reform.[17]

The introduction of the community interest company (CIC) in 2005 was designed to boost the social enterprise sector. CICs are companies that operate for the

17 In order to be accredited by the Secretary of State for the maximum three-year period, a CDFI must fulfil a number of criteria, such as: (i) be set up with the intention of carrying on its activities for at least five years; (ii) at least 75 per cent of its activities must be directed at the provision of finance and business advice for small or medium-size enterprises (SMEs) for disadvantaged communities; (iii) it must only provide finance to enterprises that have been unable to obtain funding from other sources, are located in specific geographic areas of disadvantage or are operated by, or for the benefit of, certain disadvantaged groups. In order to comply successfully with the terms of accreditation CDFIs must also invest within a certain time. By the end of the first year of accreditation, 25 per cent of the capital raised by the CDFI must be invested, 50 per cent by the end of the second year and 75 per cent by the end of the third year, with the 75 per cent limit maintained subsequently

Investing for Good provides investment advice and market data on social investment and philanthropy to professional financial advisers. It aims to open up access for investors to social investment and philanthropic opportunities.

Caroline Mason and Geoff Burnand started up this unique adviser-to-the-advisers consultancy in 2004. Geoff was a wealth manager himself and Caroline was, in her words, "the doer, someone who makes ideas happen". Although they admit that they were somewhat ahead of their time, things have moved on pretty fast: "Eighteen months ago we couldn't get through the door on social investment, only on philanthropy, and now the link has been made in terms of consumerism so people understand that what they spend their money on has a broad impact and that means their investments too," says Caroline.

The initial aim was to advise advisers on philanthropy. Geoff and Caroline thought it strange that wealth managers evaluated every detail of their customers' lives without ever actually understanding their values and "what touches them". Here was a new opportunity in advising on social investment, by which they mean business with a core social and environmental mission. "You can say to your clients, you can either give to the causes that you believe in or you can invest in them." The way Caroline explains their position is that "charities do a fantastic job in dealing with the symptoms of a specific problem and what social enterprise is doing is trying to tackle the causes and the two approaches are very complimentary".

This is a new way of thinking for many of the advisers that they talk to, so they present them with specific examples and case studies. Education is often used as an example area since so many wealthy individuals value it more than any other cause and there are lots of different ways to support it. Advisers can tell their clients "they can donate to their school or invest in a social business like the Unique Coffee Bar that takes children who have fallen out of mainstream education and specialises in getting them into work."

Caroline believes that the main barrier to this new way of thinking about managing personal wealth is "the conversation between adviser and client that says, 'You need to be doing something more interesting'". And she firmly believes that "the City likes new things".

Investing for Good offers investment advice and consultancy on how to integrate these different types of investments into clients' profiles. It is regulated by the Financial Services Authority. It has also recently initiated a market data platform, which is the starting point for an index of social investment opportunities. The platform currently has data on about 150 companies which includes accounts, prospectuses, term sheets and a whole host of information. In future each company will be categorised under a risk profile.

Investing for Good is structured as a community interest company, not because it provides them with any tax advantage, but because of what it says about their mission.

Also Caroline believes that the Government has been a catalyst in the development of social enterprise in the past few years and the introduction of CICs was one of their key initiatives, along with community investment tax relief.

Although set up in 2004, Investing for Good has been regulated only since April and in that time Caroline believes that it has added at least £6 million of additional wealth to social investments: about £2 million from philanthropic money and £4 million from investment money. The advisers with whom they have most influence are neither the blue chip private banks nor the very retail type IFAs, but the ones in the middle, the boutique wealth managers.

One of the barriers to increasing the pool of funding available for social investment is the client's decision about which pool of funds to tap, their philanthropic pool or their investment pool. Social

investment perhaps needs a separate asset class, even though as Caroline says, "a bond is a bond, a share is a share". The issue is the risk profile. When an adviser profiles a client, he assesses his attitude to risk and structures a portfolio accordingly: "They cannot just bung an oddity in the middle of that portfolio if it does not fit," says Caroline.

In reality what happens is that clients either use their charitable portfolio because the risk profile is simply too high for their regular portfolio (most of these companies are small and illiquid) or a separate portfolio is structured for their "oddity" investments, or in some cases the private banks buy them in nominee accounts. That said, to get on to Investing for Good's radar, companies have to be sound. Groups like Charity Bank, Triodos, Venturesome and CAN are critical for setting up deal flow and for capacity building because they act as "angel" investors, who put in money before the social businesses become more broadly attractive as investments.

Another barrier is the fact that it is complex. Caroline says: "It's new, it involves compliance, it's regulated, it's about investments and it all starts getting a bit blurry and a bit difficult."

Returns for clients may not be equivalent to a market return because there will be a social return in there too. Most of the investment opportunities are profit-making but profits will probably be ploughed back into the organisation. Caroline says that the community element of many of these investments is very important to the sales pitch when trying to get new investors on board. Local initiatives resonate well because investors can easily see the social change that their investment is driving and this is all part of the attraction of social investment over plain vanilla philanthropy.

benefit of the community rather than for the benefit of the owners of the company. Investing for Good (89), an adviser on philanthropy and social investment to financial advisers is an example of a CIC. The crucial test is the "community interest test", which assesses whether "a reasonable person might consider that its activities are being carried on for the benefit of the community", based on its statement of community interest. There is a CIC regulator, who is responsible for approving companies' applications to be registered as CICs and monitoring their subsequent activities. CICs are also subject to an "asset lock", which prevents them from transferring assets at less than full market value unless they are transferred to another asset-locked organisation or a charity. This is intended to reassure investors that the CICs profits are devoted to the benefit of the community.

The Government aims to boost the delivery of public services in the social enterprise sector through the development of CDFIs and CICs. From 2007 the Department for Health is holding a social enterprise investment fund (SEIF) of £73 million over a four year period to stimulate and encourage the development of a vibrant social enterprise sector in the delivery of health and social care services.

The independent Commission on Unclaimed Assets was set up in November 2005, chaired by Sir Ronald Cohen, to propose recommendations for monies in financial institutions that have been untouched by their owners for a considerable period of time. A survey published by the commission, reported that two-thirds of the British public believe that money in inactive accounts should be used to fund charitable projects. Countries including the US, Ireland, Australia, New Zealand and Spain have legal frameworks in place for putting these assets to productive use. The Dormant Bank and Building Society Accounts Bill, announced in the Queen's Speech in November 2007, proposes that money lying in dormant bank accounts in England will

Generation Investment Management is a sustainable investment company. **David Blood** co-founded Generation with former US Vice-President Al Gore in 2004.

David Blood is the managing partner of Generation Investment Management, which aims to place issues of environmental, economic and social sustainability at the heart of its investment research.

David's interest in sustainability is rooted in his upbringing: **"When I was 12 years old I lived in Brazil, where there was a significant disparity of wealth and significant poverty, and as a 12 year old you can be highly influenced." This experience has led him through the whole of his working life to "try and understand markets and what they mean to the broader group of people".**

That is not to say that the model he has arrived at did not require some learning along the way. David admits: "When I started at Goldman Sachs, my model was the traditional one of 'you make money and you either decide to spend it or give it away', and I was going to be more in the latter category. I had no inkling that I would actually try to bring them together."

The real change came when he retired from Goldman Sachs, where he was CEO of Asset Management. He was still only 44, and could have taken any number of jobs, but realised that "I had a slightly different idea of what might be fun. My vision was, and still is, that maybe we can move away from the model of half your life, or whatever proportion, be commercial and some of it not-for-profit. What if you actually combined them – is that possible? And that is in some respects what Generation is trying to do."

He believes strongly in the benefits this sort of approach can have for important causes: "You can harness the power of capital, and capital markets, to address other things – and we need to, given the challenges we face." **It can also benefit individuals in the business world who "don't necessarily want to check their values at the door, and who want to work in organisations that are doing the right thing in some way, shape or form."**

The hope is that, "if you blend things like this, you may find that one plus one in fact equals three."

Rather than take an approach that seeks to separate social return and financial return, and justify any drop in the latter on the basis of the former, Generation subjects its investments to the same rigorous measures as any other investment manager would. The key difference is that sustainability issues are incorporated into the measurement process.

David believes it is possible to demonstrate to investors that sustainable investment does not have to compromise financial returns. And he thinks the idea is beginning to catch on. "A number of huge funds in Europe, the US and Australia have taken meaningful steps to incorporate sustainability or environmental factors into how they think about investing. Not because they want to impose their values on portfolios or they want to make ethical statements, but because they actually realise it's relevant to business. And what we do at Generation always comes back to what is relevant for business and profitability and investing, because we think that is sustainable."

David has come to realise that there is a broad spectrum of possible ways to approach philanthropic giving. "If you think about the continuum of returns there will be some people who are prepared to provide pure philanthropic capital, ie no return; there may be some people who want subsidised returns, so there's a slice of philanthropy there…and then there are some people who are going to want full returns, but want to do it in a way that is useful. These might be different people, or they might be one person with different pockets of money."

David clearly fits the latter mould. His philanthropy runs the gamut from traditional giving via a family foundation to his work with Generation, which is fully

for-profit but has core values of sustainability.

Generation itself also has a linked foundation into which 5 per cent of company profits go. The main work of this foundation at the moment is advocacy: raising the profile of sustainability issues, in particular the environment, and how they relate to business and capital markets. But David has broader hopes for the foundation in the longer term: "In addition to advocacy work it will probably make direct investments using our investment acumen and partnering it with our interest in the environment and our interest in poverty."

As David's philanthropic approach has permeated his whole life, it is hard to distinguish his giving from his day job. It is clear that his work with Generation, although very much run along for-profit lines, is driven by the same general motives that have driven his giving. The experience, knowledge and passion that he has brought to Generation must be viewed as a key part of his overall philanthropic contribution.

As well as his day job with Generation, David has given time and skills through involvement with a number of organisations at board level. He is currently vice-chairman of SHINE and a board member of Acumen Fund, a US-based non-profit global venture fund. He was formerly a trustee of New Philanthropy Capital and sat on the board of his alma mater, Hamilton College.

David's philanthropy has extended to a large number of causes across a wide geographical reach. His central interest, however, is in poverty and sustainability. He has also found that having a connection to an organisation has been an important factor in his giving. "Most things we have given a fair amount of money to, we've been actively involved in. And then we've given a fair amount to organisations where we know people who are involved and therefore support them…**if you're really heavily involved and you're confident in the vision and the organisation and the people, then it's certainly easier to write cheques."**

be used to fund youth services, financial inclusion and a social investment wholesaler as described by the Commission on Unclaimed Assets. The bill also proposes that ministers in Scotland, Wales and Northern Ireland will be free to choose on which causes to spend unclaimed assets in their provinces.

Bringing Sanity to the Investment Market

Former US Vice-President Al Gore believes the entire capital market is "functionally insane…if the only tool you can use to measure value is modernisation; those things that do not come with a price tag can seem as if they have no value".[18] When he left the White House he became involved in financial services but found it "unsatisfying because it did not integrate the values that I feel are important to build into the market process". Through his friendship with David Blood, who had retired early from managing $350 billion at Goldman Sachs Asset Management, the two founded Generation Asset Management (91).

"Markets are ways of recognising and measuring values," says Al Gore, but they find it hard to put a price on "the environment, communities, employees, ethics, management quality, social, environmental and ethical values". He describes two historic waves of investment practice that tried to remedy this. The first, born out of the anti-apartheid movement was "negative screening" – not investing in South Africa, tobacco, armaments or gambling. The second wave did not discriminate against any industry but would "do deep research and find the most respectable companies" for those investing in areas such as tobacco or casinos. This second approach "ended up being, in the eye of the fiduciaries community, an inch deep and a mile wide," he says.

18 Quotations are from Al Gore's speech to the Skoll World Forum, Saïd Business School, University of Oxford, March 2006

Generation aims to bring some "sanity" to this investment market by finding "a way to integrate sustainability values into traditional equity analysis, in a way that adds value and clearly does not incur a penalty". Al Gore believes we are operating planet earth as if it were "a business in liquidation". A new breed of investment houses, like Generation, is needed, he says "to modify the way we measure, recognise and deal with value inside the market system so that it takes account of the values that are what humanity is all about."

Sustainable investment is not philanthropy, but shares its value proposition that finance can be used to bring about public benefit – by investing in companies that create wealth and have a positive social and environmental impact.

5

Conclusions and Recommendations

Philanthropy in the City

Some enlightened City figures have been inspired to set up innovative organisations that use their skills to maximise the creation or distribution of philanthropic wealth. Their motivations varied: Sir Peter Lampl (68) was inspired by his desire that every child in Britain should "have the opportunity to fulfil their potential"; David Blood (91) by his upbringing in Brazil where he was "highly influenced by seeing poverty". Once motivated, some have found the mechanics straightforward: Chris Mathias (18) said it was "dead easy" to establish his family foundation alongside his investment company; for others the process has been more challenging; Jim O'Neill (33) had to negotiate hard with the Charity Commission for the SHINE trustees to run their own endowment. These are the two key steps to beginning a journey in philanthropy: being motivated and getting access to the vehicles for implementation.

Every individual with a new idea helps to develop the philanthropic capital market which will define philanthropy as a sector. But these new developments are fragmented. Our interviewees agreed unanimously that levels of individual philanthropy, in terms of personal time, skills and money, are not commensurate with individual wealth creation in the City over the past 15 years. Former Man Group chairman Harvey McGrath (31) says: "There is substantial wealth being generated by financial services in the UK, but I am not sure that the growth in wealth in the hands of the individuals is reflected in the levels of giving. In fact, statistics tend to show that it is not."

The Potential

Pay structures in the City make it impossible to assess the total levels of compensation and the means available for philanthropy. However, exceptional wealth creation in the last ten years means that financial services professionals could lead Britain closer to US levels of giving. Individual giving levels in the US stand at 1.67 per cent of GDP and in the UK at 0.73 per cent of GDP, which is a difference of 0.97 per cent.[1] However, with giving to religious organisations removed from these percentages, the difference is 0.4 per cent of GDP.[2] The monetary level of individual giving in Britain is £8.9 billion.[3] A further 0.4 percent contribution, to take the UK individual giving level to the same as the US, is £4.8 billion. If all of the 1.07 million FSI professionals in the UK gave 5 per cent of their gross income, they would contribute just over £3.5 billion per annum.[4] If they contributed a further 5 per cent from this year's estimated bonus pool of £7.4 billion, they would contribute almost £4 billion.[5] So a 5 per cent philanthropic contribution from financial services professionals, just 1.07 million people out of a British workforce of 31.6 million people, could almost raise the £4.8 billion required to take Britain, as a nation, to US levels of giving.[6] That is without being able to make any assessments on capital gains,

1 *International Comparisons of Charitable Giving*, CAF, 2006

2 Ibid

3 *UK Giving 2005/06*, Charities Aid Foundation/National Council of Voluntary Organisations, 2006. Although CAF/NCVO have recently published *UK Giving 2006/07*, we have used 2005/06 figures to remain consistent with the FSI figures we have used for our calculations here

4 There are 1.07 million FSI professionals in the UK, 319,000 in London with an average salary of £105,531 and 751,000 outside London with an average salary of £50,130. (319,000 x £105,531) + (751,000 x 50,130) = £71 billion. 5 per cent of £71 billion is £3.55 billion. Sources: MacKenzie D, *Economic Contribution of UK Financial Services 2007*, International Financial Services London, 2007 and *Annual Survey of Hours and Earnings 2007*, The Office of National Statistics

5 5 per cent of £7.4 billion is £370 million. "Bonus pool is predominantly bonuses from investment banks", Centre for Economics and Business Research

6 www.statistics.gov.uk/pdfdir/lmsuk1207.pdf

carried interest or management fees, which constitute a major component of financial services professionals' wealth.[7]

However, our research focused on professionals in the financial services not only because of their existing and potential wealth, but also because of their financial expertise and business management skills that are directly relevant to the development of the philanthropic sector. Just as with availability of wealth for philanthropy, it is impossible to quantify the potential impact of the social and financial capital FSI professionals offer. Philanthropy, including social investment, requires the infrastructure and expertise seen in other financial markets if it is to develop into a financing sector in its own right and FSI professionals possess the social and financial capital to drive that development.

Building a culture

To make philanthropy commensurate with FSI wealth and to use FSI social capital to maximise the creation or distribution of finance for philanthropy, more professionals need to be motivated and the practical barriers need to be lowerd so that means and methods are simple and accessible. Building a culture requires a sustained change in attitudes so that eventually many more individuals grow up in families like that of Stanley Fink, where "it was always a question of how much [his parents] could afford, not whether they would say yes or no". Many of today's wealthy individuals have not come from such backgrounds and unless a life-changing experience occurs, they need to be confronted with a motivational opportunity. Many companies fill the role of second home and second family for many FSI professionals given the long working hours, and have a critical role to play. They can connect staff with causes or raise the profile of philanthropic role models, and they can provide access to infrastructure to make it easier to give.

Our interviews suggest that a powerful way to build a philanthropic culture is to encourage individuals to experiment with philanthropy as early as possible in their career. One senior private equity professional said that in his experience: "It is a very important value for people to learn to give money to things at an early age, and it is not the amount of money that matters, it is doing it." This would be on a low-key and small-scale basis, relative to means and time available, but is crucial to engaging high net worth individuals at a later stage of their career. Individuals are unlikely to "give large", in time or money, unless they have first given a little. Michael Hintze (66), who is now a major philanthropist, was certain that, "I have always given money, all the way through. Now the money being given is a lot more spectacular, but it is the give early, give often approach that is important." However, companies should provide opportunities for inspiration and access to infrastructure at all career stages, so that potential philanthropists already near the top of their career who were not encouraged early can catch up fast and act as leaders in defining the long-term philanthropy culture.

Philanthropy as a Journey

The recommendations that follow aim both to build a culture over the long term and to harness some of the immediate wealth and skills available. We consider the treatment of an individual's engagement in philanthropy as a journey, similar to climbing a career ladder but without a retirement date. Man Group deputy chairman Stanley Fink (31) agreed: "It is a journey. I think different people have different styles, but it is a journey where you actually get to the other side through certain events and you start to think about life and inheritance, and that changes the mode and scale of your giving." At some stage an individual is inspired to philanthropy, the journey

7 These figures do not take into consideration the amount already being given by FSI professionals

begins and individuals progress at different paces and in different directions depending on their motivations, means available and methods employed. Once inspired to start the journey, the importance of easy travel should not be underestimated.

We see the journey as evolving through three stages:

1 ***Getting started***: The individual is likely to be involved only in ad hoc giving, usually reactive and guided by the media (the tsunami disaster appeal), or to colleagues and friends undertaking sponsored activities. He or she is unlikely to give time (except for perhaps running a marathon) or to know how to give skills; though they may be aware of tax efficiency.
2 ***Growing and learning***: The individual is starting to gain momentum with giving; becoming more selective and considered in approach; maximising tax effectiveness; setting up a charitable account or trust; beginning to use time and skills; possibly experimenting with finance, perhaps by gifting shares or underwriting charitable loans; maybe teaming up with friends or peers at work.
3 ***Raising the game***: The individual is embracing philanthropy as a deliberate goal in life; balancing work with philanthropy; more organised in approach; focused on social outcomes; possibly using a personal philanthropic vehicle, doing social investment and creating greater impact through partnerships.

The package for cultural change

Motivation, means and giving method are interwoven from the outset. Although motivation is the key to getting started on the journey, there is no use in an individual being inspired to action but not knowing how to act. The infrastructure must be accessible in order to take the leap to making the gift or employing time and skills.

Our package of recommendations is designed to inspire more individuals to action and to break down barriers so that philanthropy is easier for them. No single proposal will bring about a cultural overhaul; a multi-pronged approach is required.

Conclusion

The aim of these recommendations is to inspire professionals in the financial services sector, who have benefited from substantial wealth creation in the past 15 years (despite the recent credit crunch), to stretch their

Recommendations for building a culture of philanthropy[8]

Breaking Down Barriers

1. Opt-out "white label"[9] charitable account

Action

- Charitable account providers should establish "white label" charitable account schemes in partnership with financial institutions and other companies as part of a package for new employees
- Employees should have to opt out rather than opt in
- Charitable account providers should lead a City-wide campaign to mobilise companies to take up this initiative and use www.givinginthecity.org.uk (see below) as a virtual co-ordination point
- Companies should work with charitable account providers to establish this initiative and should find top company directors to lead this initiative internally

8 Our research and recommendations do not cover the demand side of the philanthropy equation, by which we mean the role of beneficiary charities in encouraging more philanthropy, nor which causes are the most popular. In addition, we have not assessed traditional corporate social responsibility (CSR) as this report is about inspiring individuals. However, we have considered the role of the company in encouraging individual philanthropy among its employees.

9 A white label product or service is one produced by one company (the producer) that other companies rebrand to make it appear as if it is their product or service

- Employees should be encouraged to put a proportion of total compensation (income plus bonus, or other compensation components, in the form of cash, shares or share options) into the account every year
- Payroll giving donations should "feed" the account, which can be topped up with other transfers of cash or shares
- Charitable accounts should be portable, like pensions, when professionals move companies

Rationale

- Establishes a simple infrastructure for employees once they are inspired to start giving
- Provides a platform from which employees can easily migrate to a managed trust or ultimately their own foundation/endowment
- Empowers an individual to manage their own philanthropy journey and encourages organised giving
- Creates a culture where it is normal to have a charitable account and colleagues would be surprised if anybody opted out
- Leverages existing infrastructure to make regular giving common practice
- Relieves both the donor and the receiving charity from administering tax reclaims on cash and regular (non charitable account) cheques
- Raises the profile of payroll giving
- Simplifies cross-border giving for global professionals

2. Simplification of personal Gift Aid reclaim into a charitable account

Action

- HM Revenue and Customs should allow individuals to empower charitable account providers to reclaim the higher rate personal Gift Aid relief on their behalf

Rationale

- Maximises the tax efficiencies of a charity gift account which is already eligible for all other existing reliefs
- Leverages the existing services associated with a charity gift account since the provider already produces the annual statement of gifts for the current tax reclaim process
- Eases administration for individuals on the donor benefit
- Increases the pool of philanthropic funds by directing the personal Gift Aid relief back into the gift account
- Likely to increase the donor benefit claims of Gift Aid
- Has the dual effect of raising awareness about donor benefits on higher rate Gift Aid and about the function of charity gift accounts
- Retains positive structural elements of Gift Aid but eases implementation
- Gives due credit to the success of Gift Aid in raising money for charities and in incentivising donors

3. www.givinginthecity.org.uk

Action

- A neutral body should drive the development of a website for financial services professionals about philanthropy that is funded by FSI companies and developed with a number of carefully selected expert partners
- Information should be packaged for very financially literate professionals and aimed at potential and actual high net worth individuals
- The website should be linked to websites and intranets of financial institutions, regulatory and industry bodies
- The website should lead the Citywide campaign for opt-out charitable accounts

Rationale
- Connects individuals to a "virtual giving circle"
- Acts as a one-stop shop of information for busy financial professionals at any stage of their journey
- Speaks to financial professionals in their own language through the everyday medium of the computer screen

4. Gold standard for philanthropy advice

Action
- A relevant professional body should introduce a gold standard for financial advisers so that they include comprehensive philanthropy advice in their spectrum of financial advice
- This could be the professional body for independent financial advisers (IFAs), the Securities and Investment Institute, or the IFAs trade body, the Association for IFAs

Rationale
- Encourages philanthropy on to the main menu of financial advice ranging from tax efficient cash gifts and managing endowments to investing in trading social enterprise organisations
- Gives IFAs a visible, quality target to work towards for expertise on the full menu of philanthropy products (including where to go for softer "values" advice)
- Drives the development of philanthropy options as a sector product (like ISAs for personal saving)
- Targets IFAs as a specific group who can influence the broader sector, including private bankers and wealth managers, and raises the profile of philanthropy among other financial advisers and in general, to build on the example of Coutts who already train their private bankers in Philanthropy

5. Targeted awareness campaign on gifting shares

Action
- Charitable account providers should front a campaign, targeted at City professionals, explaining the attractive tax incentives available for gifting shares
- IFAs should be able to explain these incentives in order to be eligible for their philanthropy gold standard

Rationale
- Further raises awareness of the convenience of charitable accounts, which can accept shares and sell them for cash transfers to charities
- Increases the available funds for philanthropy by tapping into the pool of shares and share options that form the backbone of pay for some FSI professionals
- Share options are attractive gifts for donors as often they cannot be used for immediate financial gain so have no instant value.

6. Broader tax incentives for giving

Action
- Government should consider introducing tax-efficient lifetime giving vehicles such as charitable remainder trusts
- Government should consider widening the existing tax breaks on gifts of shares and land to include unlisted shares and/or works of arts

Rationale
- Including belongings in the personal assets available for philanthropy would further embed a culture of giving
- Allows for philanthropic use of illiquid assets and increases the pool of funds available for philanthropy
- Targets high net worth individuals with diverse portfolios and may encourage them to give more

Inspiring Individuals to Action

7. Individual Social Responsibility (ISR)

Action
- Individuals should take responsibility for their own philanthropy and act as leaders in their company and broader communities
- Individuals should demonstrate leadership by considering charity or social enterprise board positions both for wealth creation and for wealth distribution, as well as advising or mentoring

Rationale
- Building a long-term culture of philanthropy depends on individual social responsibility as well as company social responsibility, not least because FSI employees frequently move company
- The philanthropy sector needs more visible, individual leaders in order to build both its culture and infrastructure
- Taking on board positions raises an individual's profile as a leader, spreads skills and increases the impact of giving for the individual
- Active involvement with causes is a key long-term motivator for career philanthropists
- Profile through active leadership may deflect unwanted media and public focus on purely monetary gifts

8. Employer support

Action
- Company programmes should use existing internal frameworks to build up social responsibility among staff
- Companies should provide the infrastructure and initiatives to encourage employees at all levels to engage in philanthropy ("seeing is believing" experiences at early stage, mentoring or giving infrastructure at later stage)
- Companies should consider adopting initiatives that are relevant to their core business so that staff expertise and company infrastructure is employed appropriately
- Companies should provide incentives through generous and sustained schemes of matched giving

Rationale
- Companies have an influential role to play in shaping the philanthropic culture of their employees as individuals – particularly in FSI where professionals work long hours and the company acts as the individual's community
- Programmes and frameworks for corporate social responsibility developed over recent years have a critical role to play in inspiring individuals to their own action
- Companies should adopt their own individual approaches to developing philanthropy careers for individuals. There is no one-size-fits-all approach

9. Promotion of leaders

Action
- Companies should promote role models internally, providing "giving leaders" with opportunities to talk openly about their philanthropy and "doing leaders" with opportunities to present their latest projects and initiatives
- Companies must foster strong leaders to develop a culture of philanthropy among employees and new initiatives must be adopted and continuously marketed at the most senior level

Rationale
- Leadership is critical to the development of philanthropy
- Giving a high profile to philanthropists creates aspiration and educates employees about causes

- Junior staff frequently aspire to be the boss – philanthropy should be part of the aspiration
- The more leaders a company produces, the more it will innovate and support new initiatives to inspire individuals

10. Apply technical resources for innovative philanthropy

Action

- Financial services professionals should consider applying their technical financial skills to their philanthropy to make alternative forms of funding and expertise available to the philanthropic and social enterprise sectors
- Companies should give them access to apply their skills through intermediaries or direct mentoring schemes
- IFAs should become fully conversant with the range of financing options possible in the broad definition of philanthropy (including recycling, underwriting, social investment)

Rationale

- Philanthropy is about finance, FSI professionals have a unique understanding of finance and markets
- FSI professionals are critical to the development of the social investment market infrastructure
- London is the current global finance capital and is perfectly positioned to become the leading capital market for innovation in social enterprise and charitable funding

means and minds towards innovative philanthropy. They are also a call to companies, providers of philanthropy services, and the Government to adapt or apply the infrastructure available so that it is easier for individuals to engage their money, time and skills in philanthropic activities. A detailed schedule of recommendations along the three stages of the philanthropic journey and targeted at each of our three core constituencies: individuals, companies and Government is in Appendix 2.

We hope that these recommendations will motivate individuals to deploy effective and diverse financial solutions to maximise the creation or distribution of philanthropic wealth and become leading lights in their professional and local communities. But it is not just about money. We need to harness the energy and intellect of the financial sector for the benefit of philanthropy. The combination of money and energy can become a beacon to our broader society.

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Appendix 1: Where to go from here…

What to do	Where to go	Website
Determine how to finance philanthropy	• Philanthropy UK's A Guide to Giving	www.philanthropyuk.org/AGuidetoGiving
Set up a Charitable Account	• Charities Aid Foundation	www.cafonline.org/ www.cafonline.org/Default.aspx?page=7025
	• Charities Trust	www.charitiestrust.org/content/freedom_account
	• Stewardship	www.stewardship.org.uk/sov_account.htm
	• South West Charitable Giving	www.charitablegiving.co.uk/voucheraccount.asp
	• Charity Cheques	www.charitycheques.org.uk/charity_cheques_account.html
	• Impact Giving Charity Account	www.impactgiving.org.uk
Set up payroll giving	• Payroll Giving Centre	www.payrollgivingcentre.org.uk
Find further info on philanthropy	• The Institute for Philanthropy	www.instituteforphilanthropy.org.uk/
	• Philanthropy UK:	www.philanthropyuk.org
Find info on tax	• Tax Effective Giving:	www.tax-effective-giving.org.uk/
	• Charities Aid Foundation	www.cafonline.org
	• The Association of Charitable Foundations:	www.acf.org.uk
	• HM Revenue & Customs charity information:	www.hmrc.gov.uk/charities/index.htm
Give expertise	• Pilotlight	www.pilotlight.org.uk
	• Cranfield Trust	www.cranfieldtrust.org
Find info on charity sectors /individual charities	• New Philanthropy Capital	www.philanthropycapital.org
Find info on individual charities	• GuideStar	www.guidestar.org.uk
	• Charity Commission	www.charitycommission.gov.uk

What to do	Where to go	Website
Find projects to fund	• The Big Give	**www.thebiggive.org.uk**
Find out more about Community Foundations	• Community Foundation Network	**www.communityfoundations.org.uk**
Get social investment advice	• Investing For Good	**www.investingforgood.co.uk**
Find venture philanthropy organisations	• European Venture Philanthropy Association	**www.evpa.eu.com**
Find out about CDFIs	• Community Development Finance Association	**www.cdfa.org.uk**
Give tax-effectively within Europe	• Giving in Europe	**www.givingineurope.org**
Give tax-effectively to the US	• CAF American Donor Fund	**www.cafonline.org/pdf/CAF%20ADF%20solution%20v2h.pdf**
Set up a Donor Advised Fund	• Prism	**www.prismcharity.co.uk**
Join a Giving Circle	• The Network For Social Change	**www.thenetworkforsocialchange.org.uk**
	• The Funding Network	**www.thefundingnetwork.org.uk**

Appendix 2: Detailed Schedule of Recommendations

We considered the three key constituencies of individuals, companies and Government/policymakers when we put together our recommendations for reform. This detailed schedule expands the ten core recommendations that we have made in the report and breaks down the recommendations for each of the three target audiences.

The philanthropy journey is a theme throughout the report and in Section 6 provides a context for our recommendations. These focus on:

1 ***Getting started***: how to encourage finance professionals to begin giving
2 ***Growing and learning***: how to get them to trade up and to consolidate their activity at a higher and more imaginative level, gradually developing it as their means allow
3 ***Raising the game***: how to encourage them to give more money and time, that is, to raise their game once they are in the high net worth category and to increase their practical participation in multiple ways once they are at a stage in their career that time allows

The recommendations are relevant for (i) financial and related service professionals at all stages of their career, (ii) financial, legal and philanthropic advisers to high net worth individuals, (iii) company human resources teams and group leaders, (iv) government and policy formers. They are relevant to human resources teams and senior business managers not in terms of the more traditional corporate social responsibility use of corporate profits, but to the extent that specific remuneration structures, access to giving vehicles and motivational opportunities can inspire employees towards philanthropy.

Detailed recommendations for individuals, companies and government

Practical/individual recommendations

Rationale

Getting started

- Take responsibility for your own philanthropy and set up a specific charitable account
- These accounts can take cash or shares either as one-off transfers or via direct debit which benefit from the associated tax incentives, or from gross earnings via payroll giving
- If your company adopts a white-label charitable account programme (as recommended for companies below), deposit payroll giving funds to bank account and top up with transfers of cash or shares that benefit from tax incentives (and reclaim of higher rate tax benefit via charitable account provider authorisation as recommended for government below)

- *Encourages organised, controlled, planned giving*
- *Creates culture where this is normal behaviour and it would be unusual to make charitable donations without a charity cheque book*
- *Removes complexities of tax efficiencies as administration is conducted by the charitable account provider and visible balance is gross of all immediate rebates*
- *Simplifies cross-border giving*
- *Provides platform from which to migrate to managed trust or ultimately own foundation*

Growing and learning

- To give frequent gifts and have flexibility to select multiple beneficiaries, if giving more than £10,000, consider setting up a managed trust, eg CAF trust (for small number of large gifts, payroll giving direct to charities may still be most efficient method)
- Maintain a special charitable account for irregular, ad hoc gifts (to be able to continue giving anonymously when desired)
  - *Allows individuals to hold shares and other financial assets as an endowment and earn investment income on them, thereby increasing funds available for philanthropy*
  - *Encourages long-term financial stability for philanthropy and allows for planned philanthropy without cost of setting up own foundation before scale makes it feasible*
- Engage with charities to which you donate when your schedule and earning power allows. Visit charity or project sites, engage in dialogue with recipients
  - *Connection with the cause is a strong motivator. Once individuals experience the emotional return of their investment, they rarely step away again*
- Get involved with a giving circle (as recommended for companies below) or set up your own (like a book club) to meet like-minded professionals and expand the potential of your own philanthropy
  - *Makes philanthropy fun, peer support motivates others, helps individuals realise their own potential or maximise group potential*
- Become a philanthropy leader in your company
  - *Sets example, develops aspirational culture about philanthropy among employees, self perpetuates – the more philanthropy leaders a company produces, the more it will support new initiatives to inspire individuals*
- Intermediaries such as financial advisers, lawyers and accountants should be targeting individuals at this stage with a menu of philanthropy options as part of core financial advice
  - *Provides choice and promotes ingenuity on philanthropy options, encourages individuals to see philanthropy as a wide spectrum of options and as a real industry, creates culture in which planned giving is normal*

Raising the game

- Develop a managed trust into own foundation and/or endowment and if furnished with the right expertise, use own financial skills to manage it and maximise return

- *Leverage finance skills for philanthropic gain, become a role model, have control of performance of assets and of funds for philanthropy*
- Branch out from plain vanilla philanthropy to more complex financing such as underwriting, social investment, angel investment in high risk social enterprise as the market develops
  - *Leverage finance skills, assets and networks for philanthropic gain*
- Take on charity or social enterprise board positions, advise and mentor through intermediary schemes to maximise professional expertise and experience
  - *Further increases personal reward and maximises impact of giving to beneficiary, spreads financial and management expertise*
- Decide to be public or private about giving
  - *Once in the public eye, can further motivate philanthropic activity because of wider sphere of influence*
  - *Use influence within your own company*

Company

Rationale

Getting started

- Assist every employee to set up a white-label charitable account and join forces with other companies to lead a City campaign for this which is co-ordinated through www.givinginthecity.org.uk. Employees should have to request to opt-out rather than opt-in
- Employees should be encouraged to put a proportion of total compensation in the account every year
- Can be funded regularly via payroll giving and annually by bonus/share waiver scheme to provide regular deposits and easiest tax efficiency
  - *The opt-out scheme creates culture in which this is normal employee practice*
  - *Empowers employees to build up charitable bank balance giving them benefit of control over philanthropy and ability to reach multiple beneficiaries if desired (payroll giving is more appropriate for a few gifts to a few charities)*
  - *Raises profile of payroll giving but empowers the employee if some of payroll giving donations go to their own charitable account*
  - *Simplifies cross-border giving for companies with international employees*
- Encourage bonus or profit share (investment banks, hedge funds) or "carried interest" or "preferred return" (private equity) voluntary waiver scheme whereby individuals waive a percentage of the total compensation, in cash or in shares, which goes to their charitable account
- FSI companies to consider allowing share options that are waived to charity accounts to vest immediately to build charity nest egg
  - *It is easier to give away share options before they have a specific cash value*

- *Builds charity nest egg, particularly in years when pay levels are lower than hoped*
- *Current tax incentives on gifts of shares and share options are extremely attractive for both donor and recipient of gift*

- Promote payroll giving as best way of funding charitable account to make multiple gifts and conduct frequent philanthropy, or as best way to give a few, larger donations to specific charities
  - *Endorses the white-label charity bank account scheme but recognises value of payroll giving, emphasises company support of philanthropy and entrenches culture*
- Charitable account providers, in partnership with FSI companies, should conduct a marketing campaign targeted at financial professionals on the current, attractive tax incentives for gifting shares
  - *Further raises awareness of charitable accounts, which can accept shares into the account and sell them for cash transfers to charities*
  - *Awareness of tax incentives for gifting shares is low but they are very attractive, take up could be much higher*
  - *Increases available pool of funds for philanthropy by further tapping into pool of shares and share options which often form backbone of pay*
  - *Gifting shares and share options can be attractive as they often cannot be used for immediate financial gain so have no instant value to the donor*
  - *A far higher proportion of financial professionals are likely to own shares than any other group, so a targeted campaign can be justified*
- FSI companies should consider supporting the introduction of a gold standard accreditation scheme for financial advisers offering a comprehensive menu of philanthropy and social investment options in their financial advice
- The Securities and Investment Institute (SII) could consider building on their new module of "effective philanthropy" in the Masters syllabus for Independent Financial Advisors (IFAs)
  - *Encourages philanthropy and social investment on to main menu of financial advice*
  - *Visible sign of quality, coupled with increasing consumer demand for advice, may mobilise market for provision of philanthropy advice*
  - *Drives development of philanthropy options as a sector product (like ISAs)*
  - *Targeting IFAs should have a knock-on effect to the broader sector including other private bankers and wealth managers and financial advisers in general, to build on the example of Coutts, who already train their private bankers in philanthropy*
- Ask employees to recommend their favourite charities to receive corporate foundation donations to complement their payroll giving funds
  - *Motivates employees because leverages their payroll giving*

- Suggest at least one charity which is in the local area or part of the company's business community so that employees can see the benefit of their giving every day
  - *Seeing is believing and creates commitment*
- Introduce a well-promoted matching scheme for payroll giving and for one-off donations, with targets for maximum matching levels based on levels of company profitability in any one year
  - *Creates incentive for employees and embeds philanthropic culture in the company*
- Raise profile of employees who can act as philanthropy role models internally
  - *Junior people frequently aspire to be their boss, this makes philanthropic activity part of the aspiration*
- Create giving circles to encourage positive peer pressure
  - *Make philanthropy the fun part of the day job*
  - *Develop vehicles that encourage role models and aspiration*
  - *Help individuals to manage their own potential or maximise group potential*
- Promote company philanthropy and individual role models as part of recruitment process
  - *Embeds philanthropic culture in the company and makes it part of the reason to work there*
  - *Creates feeling of positive aspiration throughout the company*
- Encourage employee charity days or go further and develop a strategic programme that involves significant staff time and skills as part of the donation
  - *Makes engagement with philanthropy part of what the company does*
- If resources do not permit the above, use intermediaries such as Pilotlight, Kilfinan and Cranfield Trust to outsource use of employee time
  - *Makes use of operational capacity and skills*
- Support development of www.givinginthecity.org.uk website and link to company intranet/homepage (once it has been established)
  - *Facilitate access to information provision on philanthropic finance for highly literate financial services professionals*
- For multinational companies: offer advice and information on tax-effective cross-border giving and charitable tax relief for employees with international interests (expatriates as well as nationals with expatriate spouses)
  - *Expands philanthropy impact and complements employees frequent resonance with global causes*
  - *Caters to current high levels of international employees in the City*
- For business schools and companies: introduce creative philanthropy component including education on non-profit capital market and social entrepreneurship to MBA and executive MBA programmes
  - *Targets future FSI leaders who increasingly go through MBA system*

Growing and learning

- Introduce access for individuals at this stage of wealth creation to financial advice that incorporates philanthropy and social investment menu of options
  - *Creates the "company expectation of what you do" sentiment around philanthropy*
  - *Provides charities and social banks with access to high net worth professionals otherwise difficult to reach*
- Give employees emerging as keen philanthropists more company visibility and responsibility in this area, eg on selection board for company charities to support
  - *Makes employee philanthropists more visible internally*
  - *Creates culture of aspiration*
- Invite CEOs of innovative and philanthropic organisations known to the company to speak to employee groups
  - *Keeps those already interested in philanthropy abreast of current work and informs them of the new ideas/models in the sector*

Raising the game

- Promote employees at this stage of their giving as beacons internally by encouraging them to give talks, make visits and take colleagues with them
  - *Creates culture of aspiration*
- Provide vehicles (like donor advised funds) or readily accessible legal/administrative services from within company resources to those wishing to set up their own charitable vehicles
  - *Makes it easy and accessible for "cash rich time poor" professionals*
  - *Embeds philanthropic culture in the firm*
- Create the opportunity and expectation for employees at an appropriate stage of their career to take board positions in charities and more hands-on roles to maximise professional expertise and experience
  - *Further increases personal reward and maximises impact of giving to beneficiary*
  - *Benefit to company of widening skill set and experience of employees: can have positive impact on their day job*

Government policy

Rationale

Getting started phase

- Establish new mechanism that allows donor to empower charitable account provider to recover higher-rate tax proportion of Gift Aid directly into special charitable account
- Requires HM Revenue and Customs to separate the money returned as Gift Aid reclaim from general amount of reclaimed tax and requires individuals to empower charitable account provider to reclaim on their behalf (a natural step given that they produce the statement used for reclaim)
  - *Simplifies administration related to tax incentives*
  - *Raises awareness about charitable accounts, increased take up of which should increased organised and regular giving*

- *Directs donor benefit element of Gift Aid back into bank account and increases individual's philanthropic pool of funds available*
- *Introduces concept of maximising available assets for philanthropy through attractive mechanisms and incentives. Likely that higher proportion of Gift Aid would be claimed since even individuals who are not tax-motivated would prefer to see their charitable account funds increase by 40 percent*
- *Embeds giving in national culture by incorporating it into annual tax return*

Consolidation phase

- Consider introducing tax efficient lifetime giving vehicles (as with charitable remainder trusts in US).
- Consider allowing donors to retain benefits from assets legally titled to charity upon death with immediate tax break
  - *Embeds giving further into national culture*
  - *Allows donation of illiquid assets and increases asset pool for philanthropic giving*
  - *Performs similar function to legacy gifts, but with benefit of being able to enjoy gift during life*
- Consider extending the current tax relief on gifts of listed shares, land and buildings to gifts of other assets, eg unlisted shares, art etc
  - *Ability to donate further assets tax effectively may encourage financial professionals with diverse portfolios to give more*
  - *Including other assets and belongings in the pool of available funds for philanthropy would further embed a national culture of giving*

Raising the game phase

- Continue support of social enterprises as key players on the third sector landscape
- Further encourage the use of grants and non-grants for charities and social enterprises, using old and new mechanisms in unproven markets, with the ultimate aim of creating certainty about the future for social enterprises so that a liquid secondary market can develop
  - *Shows leadership and drives development of social economy*
  - *Certainty and supportive signals may help to build a social capital market infrastructure*
  - *Encourages high net worth individuals to cross over their investment and philanthropy pools of capital; funds the growing social enterprise sector in the UK through intermediaries in order to support the model and create the market*

Appendix 3: Methodology

Summary

Our study was based on a qualitative methodology. The focus was 55 face-to-face, in-depth interviews with individuals from the financial services, philanthropy and policy sectors. We also e-mailed a questionnaire to 460 senior Citi employees and conducted a review of literature relating to the financial services sector, philanthropy and taxation regimes with regard to charitable giving and social investment.

Scope

We analysed practices of philanthropy in the UK financial services industry, which is a broad term.[1] Our interviews centred on private equity professionals, investment bankers, private bankers and asset managers, but the recommendations are aimed at a wide range of sub-sectors in the FSI – from those we interviewed to those in insurance, law and consumer banking and professional service firms that operate within the industry's "ecosphere", such as law firms, strategy consultants and marketing and human resource companies. We hope that our report and its recommendations will be of interest to and impact on this entire financial services sector. Most UK-based interviewees were from companies based in London, except two (Bristol and Ayrshire, Scotland). This geographical bias reflects the location of the vast majority of financial service sector activity in the City of London. Our primary interest was the philanthropy of individuals rather than companies (eg CSR). However, in this report we recognise and actively encourage companies to facilitate and support the philanthropic endeavours of its individual employees. We carried out desk research and a small number of interviews on philanthropy, taxation and transnational giving in the US and Europe. This helped us to understand practice in other countries and provided useful points of comparison for our analysis.

Our analysis has focused on the supply of philanthropic capital and not on the demand from charities and social enterprises. We recognise that the demand side has a distinct role to play in generating increased philanthropic capital from the supply side. There has been a growing focus on the professionalism of charities and social enterprises in their fundraising from all types of individual and corporate donors. Many are developing sophisticated ways of communicating their social impact in a highly competitive environment. These charities and social enterprises have a critical role to play in unlocking donations of money and skills from FSI professionals, through the way they approach and communicate with them. How they do this is beyond the scope of this report.

Interviews

We chose in-depth interviews as the central component of our qualitative approach to enable us to gain a detailed understanding of attitudes and behaviour in personal philanthropy, with a particular focus on motivations. We used a script for all interviews but the process was two-way, enabling us to constantly review and react to our findings and adapt the interview structure accordingly. We kept the interviews unstructured enough to enable us to probe personal matters around the motivations for charitable giving, levels of generosity (compared to personal wealth) and personal taxation. Many of our intervie-

1. A comprehensive list of sub-sectors in the financial services industry could include: banking – private, investment, commercial, retail, credit card issuers; asset management – pension funds, hedge funds, private equity, venture capital, other fund managers; broking – stocks, commodities, money; insurance – general, life, reinsurance; market-making/trading – cash, futures, derivatives; advisers/deal makers – corporate finance boutiques; investment consultants; financial trade body representatives; lawyers; accountants; consumer credit companies in the form of pawnbrokers, doorstep lenders; clearing, settlement and payment systems; regulators; central banks; ratings agencies; information technology specialists; financial public relations

wees said this was the first time they had spoken out about their motivations so our interview technique had to carefully respect that.

We identified five interviewee constituencies (percentage of total interviews):

1 Senior professionals in the financial services sector (47 per cent)
2 Professional philanthropy and wealth advisers (25 per cent)
3 Founders of innovative philanthropy organisations – with a background in the financial services industry (10 per cent)
4 Executive staff in innovative philanthropy organisations (10 per cent)
5 Policy specialists – professional analysts, government and political parties (8 per cent)

One interview was a charity chief executive who had previously held a senior post in financial services.

Interviews lasted 45 to 75 minutes. Most were carried out with one interviewee, but occasionally there were two interviewees or a single interviewee was joined by a colleague or adviser. The same two interviewer pairs were used throughout, with the note-taker common to both, ensuring continuity of style and reporting. A letter was sent to all interviewees in advance to explain the purpose of the research and introduce the interviewers. At the beginning of each interview permission was sought to record the interview, which was granted in almost all cases. We explained that the interview was carried out in confidence and was non-attributable unless we sought written permission. All tapes were transcribed and "marked up" methodically within the analysis framework. The interview process took place in London, Warwick and Madrid between 26 July and 26 November 2007.

Case Studies

As the research project progressed we decided that using a selected number of mini case studies would strengthen the narrative of the final report and act as motivational tools in themselves. Where an interview illustrated an aspect of our analysis particularly well, we sought permission to conduct further enquiry or a supplementary interview in order to build up a case study. Interviewees were given an opportunity to review draft case studies before publication.

Questionnaire

We polled 460 UK-based employees of Citi at managing director level, using an e-mailed questionnaire on their personal charitable giving over the past 12 months; the use of Gift Aid and payroll giving; and factors that would encourage greater giving. We received 123 completed questionnaires.

Desk Research

We carried out a review of literature to obtain data on the financial services industry, philanthropy and social investment and tax regimes for effective philanthropy. The bulk of this research centred on the UK but also included the US and Europe for comparative purposes.

Appendix 4: Glossary

Blended Value: a theory that proposes that all organisations, whether for-profit or not, create value that consists of economic, social and environmental value components – and that investors (whether market rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organisations. The outcome of all this activity is value creation that is non-divisible and, therefore, a blend of these three elements.

Charitable Account: vehicle that acts like a bank account for charitable giving. Account holders can make regular deposits via direct debit or payroll giving, or ad hoc deposits of cash or shares. All deposits immediately receive all relevant tax relief.

Charitable Remainder Trust (CRT): a form of split interest trust, much used in the US. It allows a donor to make an irrevocable gift to a charity during their lifetime, of shares, property or cash, while retaining the benefit of the income or use of the gift for the term of their life. The donor can make deductions against capital gains tax at the time of the gift and its value is not counted as part of their estate for the purposes of inheritance tax. CRTs are not available in the UK.

Charitable Trusts: tax-efficient vehicles that provide a framework for planned, systematic charitable giving. They are legal entities that require a donor, a group of trustees and a declaration of charitable purposes. Many trusts are endowed, so they receive income from an endowment of land or invested capital. Trusts can either be grant-making trusts, in which case they give money to other charitable organisations to use, or operating trusts, in which case they directly perform charitable activities.

Community Development Finance Institution (CDFI): sustainable, independent organisation that provides financial services with two aims: to generate social and financial returns. CDFIs supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or under-served markets. There are 76 CDFI's registered as members or associate members with the sector's trade body, the Community Development Finance Association.

Community Development Venture Capital: a particular type of CDFI that specialises in equity investments. CDVC funds are relatively new to Britain and are usually run for profit, offering a financial return to investors, although sometimes at a lower estimated return than conventional venture capital. The best known British example is Bridges Ventures.

Community Foundations: charities committed to supporting projects that engage local people in making their communities better places to live. They connect people with causes. There are around 60 community foundations in the UK, covering inner cities and rural areas, according to Philanthropy UK's A Guide to Giving.

Community Interest Company (CIC): a new type of limited liability company designed specifically for social enterprises and for those wishing to operate for the benefit of the community rather than for the benefit of the owners of the company. CIC status is subject to a "community interest test" and an "asset lock" stipulation, which prevents transfer of assets at less than market value to organisations that are not themselves CICs or charities.

Community Investment Tax Relief (CITR): offers a tax incentive to investments made through accredited CDFIs. The tax incentive comes in the form of a tax relief, which reduces the investor's income tax (or corporation tax) liability.
Donor Advised Fund: a charitable vehicle that acts as a sponsor to many funds as an alternative to direct giving or setting up a private foundation. Through the vehicle, the donor has an easy-to-establish, low-cost way of conducting philanthropy of his choice that also takes advantage of tax incentives for giving. Community foundations pioneered their development.

Gift Aid: the most commonly-used UK tax relief on donations. Under the Gift Aid scheme, charities can reclaim the basic rate tax on donations made by UK taxpayers. Higher rate taxpayers can also claim the difference between higher rate and basic rate tax as personal tax relief.

Give As You Earn: The UK's largest payroll giving scheme, operated by CAF.

Giving Circles: form of philanthropy consisting of groups of individuals who pool their funds and other resources and decide jointly the recipients of donations. Giving circles are often focused on giving within a local community.

High Net Worth Individual: individual with over £500,000 of investable assets. An individual with more than £15 million of investable assets is referred to as an Ultra High Net Worth Individual.[1]

Lifetime Legacies: See Charitable Remainder Trusts

Matched Giving: incentive scheme in which an employer matches charitable donations by employees. This is usually on a pound-for-pound basis, but may be two-to-one or greater. Matched donations may be made through payroll giving or as one-off gifts.

Mezzanine Finance: hybrid of debt and equity financing. Mezzanine financing in the private sector is typically used to finance the expansion of existing companies, and is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. In the charitable sector, mezzanine financing takes the form of loans and investment support that fill the gap between grants and bank loans

Patient Capital: long-term finance for development, with soft terms, including little ceding of control and sub-market financial returns, in return for social gains.

Payroll Giving: tax-effective way of making regular gifts. Employees of companies operating a payroll giving scheme can make elect to make regular donations from their gross salary, thus receiving an effective deduction at their highest rate of income tax.

Social Enterprise: a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Social Entrepreneurship: the use of innovative, entrepreneurial business skills to address social and environmental problems. This will often involve revenue generation but is not required. A social entrepreneur may or may not be associated with a non-profit organisation.

Social Investment: a way of creating new or scaling up existing streams of financing for civil society organisations and social enterprises as well as other initiatives that

1. Barclays Wealth Insights White Paper – UK Landscape of wealth, 2007

seek to offer sustainable solutions to development. Strategies employed include mission-related investment, venture philanthropy, institutional building and social enterprise development programmes through vehicles such as micro-lending, loan guarantees, equity investments, patient capital and philanthropic venture capital.

Socially Responsible Business: the practice of integrating ethical behaviour and proactive positive concern and action for the public good by private sector entities whose main purpose is the creation of enterprise and profit.

Socially Responsible Investment: a term used to describe any area of the financial sector where the social, environmental and ethical principles of the investor (whether an individual or institution) influence which organisation or venture they choose to place their money with. It also encompasses how an investor might use their power as a shareholder to encourage better environmental and social behaviour from the companies they invest in.

Venture Philanthropy Fund: a philanthropic fund that aims to develop the capacity of selected charities or voluntary organisations through financial support and, as importantly, strategic and management advice. They adopt a collaborative approach to planning and setting targets for future development linked to financing.

Venture Philanthropy: an approach to charitable giving that applies venture capital investment principles – such as long-term investment and hands-on support – to the social sector. Its key characteristics are high engagement; tailored financing; multi-year support; the provision of non-financial support, such as strategic planning advice, executive coaching and access to other networks; organisational capacity building; and performance measurement.

Appendix 5: Technical Comparison of US and UK Means and Methods

Gifts

	Key features	Pros	Cons
Cash			
UK	• Cash gifts are eligible for Gift Aid; in order for Gift Aid to apply the donor must make a declaration that they wish it to do so • Under Gift Aid a charity can claim back the full amount of basic rate tax on a gift to them, as long as the donor has paid sufficient tax in that year to cover the amount reclaimed • Deductible amount: a higher rate taxpayer can, in addition, claim back the difference between the basic rate tax reclaimed by the charity and his own rate (ie 40% - 22% = 18%)	• A basic rate taxpayer is able to make a donation of eg £100 to a charity at a real cost to them of only £78 • A higher rate taxpayer is able to make a gift of £100 for a real cost of only £60	• Lack of understanding or awareness of the Gift Aid mechanism means that the capital available to charities has not been maximised • The system of reclamation for higher-rate taxpayers is sometimes criticised for being too complicated
US	• Deductible amount: The full amount of a cash donation to charity can be deducted from an individual's tax return, up to a maximum of 50% of adjusted gross income (AGI) • Limits on deductions: in some cases the deduction is limited to 20% or 30% of AGI, depending on the type of organisation it is given to • If contributions for the year exceed the allowed percentage of AGI, the deduction can be carried over into the next tax year, up to a maximum of 5 years	• Deductions can be taken straight from gross income, so there is no need to reclaim tax	

	Key features	Pros	Cons
Shares & Securities, Land or Buildings			
UK	• Capital gains tax (CGT) relief: Gifts of shares or securities, like any non-cash asset, are treated as a disposal on a no-gain, no-loss basis for CGT purposes • Deductible amount: income tax relief: this is calculated by taking the fair market value (FMV) of the qualifying investments at the time of donation, less any consideration given by the charity, plus any incidental costs of making the gift. This amount can then be deducted from the donor's taxable income for the year	• The CGT and income tax relief combined give an effective deduction of 68% – hence a gift of £100K of shares can be argued to have a real cost to you of £32K • If gifting windfall shares or part of stock portion of bonus, this is a highly tax efficient way to make a charitable donation	• Level of awareness and understanding of share giving is low

US	• Deductible amount: the full FMV of a donation of shares or securities to charity can be deducted, up to a maximum of 50% of AGI
	• Limits on deductions: if sale of the shares at the time of donation would have resulted in a capital gain, they are treated as capital gain property and the deduction is limited to
	  • 30% of AGI if given to a qualifying 50% organisation.
	  • 20% of AGI if given to an organisation that is not 50% qualifying
	• If contributions for the year exceed the allowed percentage of AGI, the deduction can be carried over into the next tax year, up to a maximum of 5 years
		• Deductions can be taken straight from gross income, so there is no need to reclaim tax	

	Key features	Pros	Cons
Art Works			
UK	• There is no tax relief on gifts of art in the UK		
US	• Deductible amount: same as for shares, securities, land and buildings, if the art work is 100% owned • It used to be possible for a donor to make a gift of an undivided fractional share of his or her entire interest in a work of art and take a deduction equal to the fair market value of the fractional share (if the property was used by the charity for its exempt purposes) or the donor's basis in the fractional share (if the charity's use was unrelated)	• Deductions can be taken straight from gross income, so there is no need to reclaim tax	Changes following the Pension Protection Act 2006: • No deduction may now be made for a contribution of a fractional interest in an artwork unless immediately before the contribution the entire work was owned by the donor and/or the charity • If a donor makes subsequent gifts or bequests of additional interests in the property after making the initial contribution, the value of the property at the time of the subsequent contribution is deemed to be the lesser of the FMV at the time of the initial contribution or the FMV at the time of the subsequent contribution. Thus, no income or estate tax deduction will be allowed for appreciation occurring after the date of the initial gift • If the donor's entire interest is not contributed to the charity within 10 years of the initial gift, or at the donor's earlier death, they must recapture all charitable income and gift tax deductions plus interest and pay an additional 10% tax on the recaptured amount
Gifts in Kind			
UK	• There is no tax relief on gifts in kind in the UK		
US	• Deductible amount: the FMV of gifts in kind, such as clothes, household goods etc can be deducted against income		

	Key features	Pros	Cons
Volunteering			
UK	• There is no tax relief associate with volunteering in the UK		
US	• Although time given to a charitable cause cannot directly be deducted against income, some out-of-pocket expenses incurred during the course of charitable volunteering such as petrol costs or overnight accommodation may be taken as deductions		
Vehicles			
Payroll Giving			
UK	• Employees of participating companies can make regular pre-tax donations to nominated charities direct from the payroll. Hence there is a reduction in the amount of income tax taken from the donor's pay, giving immediate tax relief at the donor's highest rate of income tax • UK payroll giving schemes are administered by a number of approved charities, which charge a small fee (usually no more than 4% or 35p per donation)	• For charities, payroll giving donations provide a guaranteed income stream • Donor: Unlike Gift Aid, the entire tax benefit from payroll giving goes to the donor • Charity: For charities, payroll giving donations provide a guaranteed income stream	• Relies on the employer having a payroll giving scheme • The start-up costs for a company setting up a scheme need to be considered • The lack of direct contact between the donor and the charity can make it difficult to establish a motivational connection
US	• Employees of participating companies can make regular pre-tax donations to nominated charities direct from the payroll. Hence there is a reduction in the amount of income tax taken from the donor's pay, giving immediate tax relief at the donor's highest rate of income tax		• There is concern that workplace giving in the US has become stale; the percentage of employers offering such schemes has fallen in recent years • The lack of direct contact between the donor and the charity can make it difficult to establish a motivational connection

	Key features	Pros	Cons
	• Historically, workplace giving campaigns in the US were organised by the local branch of United Way, which is a national network of more than 1,300 locally-governed fundraising organisations		
Charitable Acount			
UK	• A charitable account, such as the CAF Charity Account, works like a bank account designed especially for charitable giving. The donor decides how much to give and pay into the account • Once an account has been set up, the donor receives a chequebook and debit card with which to make donations, as well as regular statements • There is an administration charge for money going through a charitable account. For a CAF Charity Account this is normally 4% of the gift	• Because CAF is a charity, payments into the account are eligible for all the usual tax reliefs: Gift Aid, payroll giving, share giving • Because tax has already been claimed back on the amount in the charity account, the overall administrative costs associated with claiming back tax on donations are reduced for the receiving charity • For higher rate taxpayers, the three-monthly statements provide a useful record of giving and help donors to make their personal tax claim	• For donors making few donations, and in larger amounts, it may be less expensive (and not much more complicated) to give directly to chosen causes because of the saving on the 4% transaction fee
US	• The tax system in the US means that there is no need for charitable accounts		
Private Foundation/Charitable Trust			
UK	• A private foundation/charitable trust is a legally incorporated charitable body that is not a public charity or supporting organisation • A charitable trust must have a board of trustees and a trust deed, stating its charitable purposes	• As a charitable trust is a charity, donations to it are eligible for all the usual tax reliefs • In addition, the trust will be subject to other tax benefits: 1 No tax on investment income 2 No corporation tax 3 No inheritance tax 4 No business rates 5 No need to VAT register (except in the case of very large trusts that supply a significant amount of goods/services subject to VAT)	• Set up and administration costs • Annual reporting requirement

	Key features	Pros	Cons
US	Same as for UK, except: • Required to distribute 5% of assets annually • Federal excise tax on investment income (typically 1-2%)	• High level of control over administration of gifts • Public disclosure can lend prestige to family name • Ability to hire staff to manage foundation	• Required to distribute at least 5% of assets per annum • Must submit an annual tax return • Federal excise tax on investment income (typically 1-2%) • Start up costs • Donations of appreciated assets (other than qualifying shares) are made on a cost rather than FMV basis • Full responsibility for managing assets and for ensuring that grantees are eligible
Private Operating Foundation			
UK	• N/A		
US	• Private operating foundations are private foundations that use the bulk of their resources to provide charitable services or run charitable programmes of their own. • They make few, if any, grants to outside organisations and, like private independent and private family foundations, they generally do not raise funds from the public • A private foundation may qualify as an operating foundation if 85% or more of the lesser of its adjusted net income or minimum investment return is used directly for the active conduct of its exempt activities	As for non-operating foundation, except: • Limits on deductions: limited to 50% of AGI for all assets other than shares subject to a long-term capital gain, on which there is a 20% limit • Contributions subject to long-term capital gains can be deducted at FMV basis	

	Key features	Pros	Cons
Donor Advised Fund (DAF)			
UK	• Available primarily through community foundations (CF) • Giving via a CF or donor advised fund (DAF) can be done in a number of ways, with varying degrees of control over the destination of grants: – Donations can be pooled in a single, general fund, so that donors can contribute to a wide variety of causes (in a specific area for a CF) – Donations can be directed to themed funds, which address issues such as children or older people – Donors can establish tailor-made named funds	• As the CFs and DAFs are charities, contributions to them are subject to all available tax relief • Can give anonymously • Virtually no set-up costs, unlike setting up a charitable trust • Low annual costs	• If DAF is through a community foundation, giving tends to be geographically rather than thematically focused
US	• A donor advised fund (DAF) is a fund set up by a public charity or other sponsor, into which a donor gives cash or assets and then recommends the amount, timing and destination of grants from the fund • It is crucial to realise that the sponsor, rather than the donor, has final approval on grants	• Deductions: contributions to the DAF are immediately tax deductible • Limits on deductions: limited to 50% of AGI for all assets other than shares subject to a long-term capital gain, on which there is a 30% limit • Assets removed from taxable estate • Contributions subject to long-term capital gains can be deducted at FMV • No set-up charges, no annual reporting requirements. • All aspects can be handled anonymously if desired • Low contribution minimums – normally $10K • No annual distribution requirement • No federal excise tax • Offers possibility of an ongoing legacy that a yearly bequest does not	• Lack of final control over grant making- can only make recommendations • Lack of control over investments – may be able to make some recommendations • No income • No ability to hire staff

	Key features	Pros	Cons
Legacy Bequest			
UK	• Gifts to charities made in a will are exempt from inheritance tax (IHT). Such gifts are fully revocable within the lifetime of the donor • There are a number of types of legacies: 1 Pecuniary Legacy – a gift of an actual and defined sum of money 2 Specific Legacy – a gift of an item or items, say a collection of books, paintings etc 3 Residual Legacy – a gift of a certain proportion of the residuary estate 4 Reversionary Legacy – a sum of money or proportion of the estate that will be held in trust during the lifetime(s) of one or more named persons. On the death of the last of these life tenants, all or part of the trust funds become the property of the charity 5 Conditional legacy – a charity may be named in a will as a long stop. In effect, this is a provision against the eventuality of the testator dying intestate. For example, for an individual planning to leave estate to spouse but he/she dies first, then the amount may be left to a charity	• Enables a reduction of IHT burden in estate planning	• Donor does not see the benefit of the donation or receive any recognition during their lifetime • Not favoured by charities because: • the gift is revocable • the amount is unpredictable • the charity has no access to the gift before the donor's death
US	• The mechanism is the same as in the UK		• Donor does not see the benefit of the donation or receive any recognition during their lifetime • Not favoured by charities because: • the gift is revocable • the amount is unpredictable • the charity has no access to the gift before the donor's death

	Key features	Pros	Cons
Charitable Remainder Unitrust (CRUT)			
UK	N/A		
US	• A CRUT is an irrevocable trust, normally established via a multiple agreement between a donor, a recipient charity and a third party (usually the donor's lawyer or a bank) • The donor transfers assets to the trust. The use of this principal by the charity is deferred. Subsequent additional donor contributions are allowed • The unitrust must make annual payments, equal to a fixed percentage (at least 5% and not more than 50%) of the trust's value each year to one or more beneficiaries • CRUTs must last as long as the beneficiaries live or for a set period of time (not more than 20 years) • Donors can claim an income tax deduction for the present value of the assets they place in the trust. Deductions are limited to 50% of AGI for all assets other than shares subject to a long-term capital gain, on which there is a 30% limit	Donor: • CGT on the sale of highly appreciated assets reduced or eliminated • Donated assets are removed from the donor's taxable estate • Income tax deduction of between 30% and 70% (depending on beneficiaries' ages and payout rate) • Allows donation of illiquid assets • Guaranteed lifetime payments, thus there is no fear about future changes in financial situation • Subsequent contributions can be made • Can choose own fund manager in order to maximise investment returns Charity: • Receive a clear and irrevocable commitment from donors • Can rely on eventual receipt of a lump sum	Donor: • Payouts are variable
Charitable Remainder Annuity (CRAT)			
UK	N/A		
US	A CRAT is the same as a CRUT (see above), with a few exceptions: • Annuity may take only one form • Annual payments must be made regardless of earnings in any given year • The amount of annual payments is established at inception and never varies • Additional contributions are not allowed	• Same as for a CRUT, except that subsequent contributions cannot be made	

	Key features	Pros	Cons
Pooled Income Fund (PIF)			
UK	N/A		
US	• A PIF is a trust (sometimes also called a charitable mutual fund). Multiple donors contribute assets to (ie buy shares in) the pooled fund of a specific charity. The assets are then invested by fund managers and the resulting earnings distributed among the donors • The arrangement is irrevocable – donors cannot withdraw assets from the fund • The donor (and/or other stated beneficiaries) receives an annual payment for life, which varies annually according to the performance of the fund	Donor: • CGT on the sale of highly appreciated assets reduced or eliminated • Donated assets are removed from taxable estate • Income tax deduction of between 30% and 70% (depending on beneficiaries' ages and payout rate) • Allows donation of illiquid assets • Guaranteed lifetime payments, thus there is no fear about future changes in financial situation Charity: • Receive a clear and irrevocable commitment from donors	• Lacks the control over management of assets that a CRT has
Charitable Lead Trust (CLT)			
UK	N/A		
US	• A CLT is almost the opposite of a CRT: it is a trust in which the annual payments of the trust (the "lead" interest) are received by a charity and the remainders (the assets) are received by the donor • The donor makes an annual trust payment to the charity for a set period of time. At the end of that period the assets return to the donor or another named beneficiary	• Deductions: Annual distributions to the CLT are immediately tax deductible for the donor Payments to charity offset inheritance or gift tax liabilities on the remaining trust assets passing to the donor's heirs • Limits on deductions: Deductions are limited to 50% of AGI for all assets other than shares subject to a long-term capital gain, on which there is a 30% limit Charity: • Provides a guaranteed income stream for a set period of time	

	Key features	Pros	Cons
Charitable Gift Annuity (CGA)			
UK	N/A		
US	• A CGA is a contractual relationship between a donor and a charity. The donor agrees to give a cash gift (or other asset) to the charity, which the charity invests. The charity agrees to pay a lifetime income to the donor (and/or another named beneficiary) • When all beneficiaries have died, the charity obtains the remainder of the donation • Payments to donors are regulated, and annuity rates fixed, by the American Council on Gift Annuities • A donor can also take out a deferred payment CGA where, as the name suggests, payments to the donor are deferred, typically until retirement age	Donor: • Immediate CGT deferral on appreciated assets • Steady guaranteed annual payments for life, a portion of each of which is tax exempt • An income tax deduction can be made equal to the amount of the contribution less the present value of the payments that will be made during life (based on an actuarial calculation)	• Lacks the control over management of assets that a CRT has
Retained Life Estate			
UK	N/A		
US	• A retained life estate is a contract under which a donor transfers a property to a charity with the stipulation that the donor (or another named beneficiary) should remain in residence for life	Donor: • If the property can be claimed as a "personal residence" then the donor can take an immediate deduction against income tax to the value of the charitable remainder interest • As the property has been irrevocably gifted, it is also removed from the donor's estate, thus reducing estate tax • A donor can make a substantial gift without giving up liquid assets	

	Key features	Pros	Cons
Life Insurance Gift			
UK	N/A		
US	• Life insurance policies can be contributed to a charity as a planned gift • The donor simply names the charity as the beneficiary (either primary or secondary) of the policy, and the gift can be for all or part of the proceeds • If the donor also transfers ownership of the policy to the charity the gift becomes irrevocable, and the donor can take a deduction against income tax		